
U.S. Department of Energy

Performance and Accountability Report

Fiscal Year 2004

FINANCIAL RESULTS

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Message from the Chief Financial Officer

I am pleased to report that for the sixth consecutive year, the Department of Energy has received an unqualified opinion on its consolidated financial statements. The audit was performed by the public accounting firm KPMG LLP, working for the Department's Inspector General. This unqualified opinion provides assurance that the consolidated financial statements fairly present the Department's financial position and results of operations. These statements were prepared in accordance with standards developed by the Federal Accounting Standards Advisory Board and requirements established by the Office of Management and Budget and the Government Management Reform Act of 1994. In addition to receiving an unqualified opinion, we resolved our previously identified reportable condition related to the quality and accuracy of our performance information and have made significant progress in addressing our remaining reportable condition related to unclassified network security. Overall, the audit of the consolidated financial statements confirms our assessment that the Department of Energy maintains effective financial management controls, as no material weaknesses were identified by the auditors.



The Department had an exceptional year. In fiscal year 2004, the Office of Management and Budget announced that the Department of Energy is one of the top cabinet-level agencies in demonstrating progress in implementing the President's Management Agenda. This recognition signifies that the Department has institutionalized sound management practices and focused leadership efforts on organizing for and managing by results. We also successfully met the Office of Management and Budget's challenge to issue our Performance and Accountability Report by November 15, 2004. This accelerated issuance places information on the full extent of our program achievements and financial activities in the hands of our managers and stakeholders a full month earlier than last year.

We completed an evaluation of our financial management system in fiscal year 2004, which provided assurance that our system is in general conformance with governmental requirements. However, we plan to implement a new core financial system and data warehouse in fiscal year 2005 to serve as the cornerstone for enhanced integration of financial and performance information, increased data integrity and internal controls, and improved access to financial information. During this year, we also completed a competitive sourcing study of our financial services function and have just implemented the Department's winning bid. Through consolidation and specialization, this change will create significant efficiencies in operations.

Our commitment to the American people is to manage their resources wisely and effectively. I believe you will find this Performance and Accountability Report demonstrates that the Department of Energy takes this responsibility seriously and, through a sustained focus on results, is working diligently to ensure that taxpayers' dollars are well managed. We expect and look forward to continued improvement in meeting our commitment to the American people in the years to come.

A handwritten signature in black ink, which appears to read "Susan J. Grant". The signature is fluid and stylized, with a large loop at the end.

Susan J. Grant
November 15, 2004

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Consolidated and Combined Financial Statements

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements."

The responsibility for the integrity of the financial information included in these statements rests with the management of the Department of Energy. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in this report.

The following provides a brief description of the nature of each required financial statement.

The Consolidated Balance Sheets describe the assets, liabilities, and net position components of the Department.

The Consolidated Statements of Net Cost summarizes the Department's operating costs by the seven long-term general goals identified in the Department's FY 2004 Strategic Plan. The Consolidated Statements of Net Cost also reports "Net Cost of Transferred Operations." This amount represents the cost of functions incurred by the Department for programs that were transferred to the Department of Homeland Security as of March 1, 2003, in accordance with the Homeland Security Act of 2002.

All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs. The Net Cost of Operations is reported on the *Consolidated Statements of Net Cost and also on the Consolidated Statements of Financing*.

The Consolidated Statements of Changes in Net Position identify appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the Consolidated Balance Sheets from the beginning to the end of the reporting period.

The Combined Statements of Budgetary Resources identify the Department's budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. The *Combined Statements of Budgetary Resources* provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the *Combined Statements of Budgetary Resources* is included in the Required Supplementary Information section on the schedule *Budgetary Resources by Major Account*.

The Consolidated Statements of Financing reconcile the obligations incurred to finance operations with the net cost of operations. Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that require payment during the same or future period. Obligations incurred link the *Combined Statements of Budgetary Resources to the Consolidated Statements of Financing*.

The Consolidated Statements of Custodial Activities identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps of Engineers and the Bureau of Reclamation.

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Principal Statements

U. S. Department of Energy

Consolidated Balance Sheets

As of September 30, 2004 and 2003

(\$ in millions)

	2004	2003
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 15,606	\$ 14,824
Investments, Net (Note 4)	20,532	18,849
Accounts Receivable, Net (Note 5)	563	490
Regulatory Assets (Note 6)	4,613	4,690
Other	13	7
Total Intragovernmental	\$ 41,327	\$ 38,860
Investments, Net (Note 4)	256	256
Accounts Receivable, Net (Note 5)	4,062	4,389
Inventory, Net (Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserves	18,148	16,818
Nuclear Materials	21,722	22,144
Other	436	453
General Property, Plant, and Equipment, Net (Note 8)	22,333	21,257
Regulatory Assets (Note 6)	5,741	4,954
Other (Note 9)	5,283	5,524
Total Assets	\$ 119,308	\$ 114,655
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	\$ 101	\$ 123
Debt (Note 11)	7,357	7,538
Appropriated Capital Owed (Note 12)	3,111	2,906
Deferred Revenues and Other Credits (Note 13)	149	158
Other (Note 14)	262	271
Total Intragovernmental	\$ 10,980	\$ 10,996
Accounts Payable	3,383	3,087
Debt (Note 11)	6,531	6,443
Deferred Revenues and Other Credits (Note 13)	20,235	18,040
Environmental Liabilities (Note 15)	181,742	183,434
Pension and Other Actuarial Liabilities (Note 16)	10,530	9,926
Other (Note 14)	4,367	3,110
Contingencies and Commitments (Note 17)	1,943	2,881
Total Liabilities	\$ 239,711	\$ 237,917
NET POSITION		
Unexpended Appropriations	\$ 8,784	\$ 8,900
Cumulative Results of Operations	(129,187)	(132,162)
Total Net Position	\$ (120,403)	\$ (123,262)
Total Liabilities and Net Position	\$ 119,308	\$ 114,655

The accompanying notes are an integral part of these statements

U. S. Department of Energy

Consolidated Statements of Net Cost

For Years Ended September 30, 2004 and 2003

(\$ in millions)

	2004	2003
GENERAL GOALS		
Nuclear Weapons Stewardship:		
Program Costs	\$ 6,220	\$ 5,214
Nuclear Nonproliferation:		
Program Costs	\$ 1,101	\$ 968
Naval Reactors:		
Program Costs	740	687
Less: Earned Revenues (Note 18)	(8)	(22)
Net Cost of Naval Reactors	\$ 732	\$ 665
Energy Security:		
Program Costs	6,378	6,235
Less: Earned Revenues (Note 18)	(4,089)	(4,626)
Net Cost of Energy Security	\$ 2,289	\$ 1,609
World-Class Scientific Research Capacity:		
Program Costs	\$ 3,196	\$ 3,068
Environmental Management:		
Program Costs	6,283	6,287
Less: Earned Revenues (Note 18)	(153)	(160)
Net Cost of Environmental Management	\$ 6,130	\$ 6,127
Nuclear Waste:		
Program Costs	530	421
Less: Earned Revenues (Note 18)	(322)	(326)
Net Cost of Nuclear Waste	\$ 208	\$ 95
Net Cost of General Goals	\$ 19,876	\$ 17,746
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	2,738	2,351
Less: Earned Revenues (Note 18)	(2,757)	(2,330)
Net Cost of Reimbursable Programs	\$ (19)	\$ 21
Other Programs: (Note 19)		
Program Costs	758	724
Earned Revenues (Note 18)	(303)	(222)
Net Cost of Other Programs	\$ 455	\$ 502
Costs Applied to Reduction of Legacy Environmental Liabilities (Note 20)	(6,667)	(6,242)
Costs Not Assigned (Note 21)	8,277	(17,049)
Net Cost of Continuing Operations	\$ 21,922	\$ (5,022)
Net Cost of Transferred Operations (Note 22)	-	44
Net Cost of Operations	\$ 21,922	\$ (4,978)

The accompanying notes are an integral part of these statements

U.S. Department of Energy

Consolidated Statements of Changes in Net Position

For Years Ended September 30, 2004 and 2003
(\$ in millions)

	2004	2003
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ (132,162)	\$ (159,316)
Budgetary Financing Sources:		
Appropriations Used	23,109	21,374
Nonexchange Revenues	13	20
Donations, Financial	1	-
Transfers - In/Out Without Reimbursement, Budgetary	(260)	(8)
Other Financing Sources:		
Transfers - In/Out Without Reimbursement, Nonbudgetary	1,031	982
Imputed Financing from Costs Absorbed by Others	1,011	(178)
Other Gains and Losses	(8)	(14)
Total Financing Sources	\$ 24,897	\$ 22,176
Net Cost of Operations	(21,922)	4,978
Ending Balance - Cumulative Results of Operations	\$ (129,187)	\$ (132,162)
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	\$ 8,900	\$ 8,206
Budgetary Financing Sources Related to Appropriations:		
Appropriations Received	23,173	22,248
Appropriations Transferred - In/Out	11	(26)
Other Adjustments	(191)	(154)
Appropriations Used	(23,109)	(21,374)
Total Financing Sources Related to Appropriations	\$ (116)	\$ 694
Ending Balance - Unexpended Appropriations	\$ 8,784	\$ 8,900

The accompanying notes are an integral part of these statements

U. S. Department of Energy

Combined Statements of Budgetary Resources

For Years Ended September 30, 2004 and 2003

(\$ in millions)

	2004	2003
BUDGETARY RESOURCES		
Budget Authority		
Appropriations Received	\$ 24,190	\$ 23,044
Borrowing and Contract Authority	1,681	673
Net Transfers	(85)	(246)
Unobligated Balance		
Beginning of Period (Note 24)	3,576	3,151
Net Transfers, Actual	(2)	74
Spending Authority from Offsetting Collections		
Earned		
Collected	7,003	6,744
Receivable from Federal Sources	23	75
Change in Unfilled Customer Orders		
Advances Received	(40)	99
Without Advances from Federal Sources	985	560
Recoveries of Prior Year Obligations	32	218
Authority Temporarily Not Available	(101)	(90)
Authority Permanently Not Available	(739)	(949)
Total Budgetary Resources (Note 24)	<u>\$ 36,523</u>	<u>\$ 33,353</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	\$ 23,878	\$ 22,732
Exempt from Apportionment	4,547	3,483
Reimbursable	4,062	3,530
Total Obligations Incurred (Note 24)	<u>\$ 32,487</u>	<u>\$ 29,745</u>
Unobligated Balances Available		
Apportioned Available	2,538	1,790
Exempt from Apportionment	12	15
Unobligated Balances Not Available (Note 24)	1,486	1,803
Total Status of Budgetary Resources	<u>\$ 36,523</u>	<u>\$ 33,353</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance - Beginning of Period	\$ 11,506	\$ 11,198
Obligated Balance, Transferred	-	(20)
Obligated Balance, Net of Transfers - Beginning of Period	<u>\$ 11,506</u>	<u>\$ 11,178</u>
Obligated Balance - End of Period		
Accounts Receivable	\$ (636)	\$ (612)
Unfilled Customer Orders from Federal Sources	(3,708)	(2,723)
Undelivered Orders	10,361	9,893
Accounts Payable	6,886	4,948
	<u>\$ 12,903</u>	<u>\$ 11,506</u>
Outlays		
Disbursements	\$ 30,050	\$ 28,564
Collections	(6,963)	(6,843)
Subtotal	<u>\$ 23,087</u>	<u>\$ 21,721</u>
Less: Offsetting Receipts	(3,161)	(2,379)
Net Outlays	<u>\$ 19,926</u>	<u>\$ 19,342</u>

The accompanying notes are an integral part of these statements

U.S. Department of Energy

Consolidated Statements of Financing

For Years Ended September 30, 2004 and 2003

(\$ in millions)

	2004	2003
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 32,487	\$ 29,745
Less: Spending Authority from Offsetting Collections and Recoveries	(8,003)	(7,696)
Obligations, Net of Offsetting Collections and Recoveries	\$ 24,484	\$ 22,049
Offsetting Receipts	(3,161)	(2,379)
Net Obligations	\$ 21,323	\$ 19,670
Other Resources:		
Imputed Financing from Costs Absorbed by Others	1,011	(179)
Transfers-In/Out	1,031	982
Nuclear Waste Fund Offsetting Receipts, Deferred (Note 23)	2,095	1,177
Other	(8)	14
Net Other Resources Used to Finance Activities	\$ 4,129	\$ 1,994
Total Resources Used to Finance Activities	\$ 25,452	\$ 21,664
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	\$ 506	\$ (206)
Resources that Finance the Acquisition of Assets	(4,436)	(4,511)
Resources that Fund Expenses Recognized in Prior Periods	(7,298)	(6,191)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	87	220
Other Resources and Adjustments	(1,813)	(981)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (12,954)	\$ (11,669)
Total Resources Used to Finance the Net Cost of Operations	\$ 12,498	\$ 9,995
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Increases/(Decreases) in Unfunded Liability Estimates (Note 25)	\$ 7,557	\$ (16,847)
Increase in Exchange Revenue Receivable from the Public	3	(19)
Total Components Requiring or Generating Resources in Future Periods	\$ 7,560	\$ (16,866)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 1,539	\$ 1,576
Revaluation of Assets and Liabilities	(161)	(149)
Other	486	466
Total Components Not Requiring or Generating Resources	\$ 1,864	\$ 1,893
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	\$ 9,424	\$ (14,973)
NET COST OF OPERATIONS	\$ 21,922	\$ (4,978)

The accompanying notes are an integral part of these statements

U.S. Department of Energy

Consolidated Statements of Custodial Activities

For Years Ended September 30, 2004 and 2003
(\$ in millions)

	2004	2003
SOURCES OF COLLECTIONS		
Cash Collections (Note 26)		
Interest	\$ 3	\$ 4
Federal Energy Regulatory Commission	75	20
Power Marketing Administration Custodial Revenue	624	512
Total Cash Collections	\$ 702	\$ 536
Accrual Adjustment	4	12
Total Revenue	\$ 706	\$ 548
DISPOSITION OF REVENUE		
Transferred to Others		
Department of the Treasury	(521)	(482)
Army Corps of Engineers	(7)	(7)
Bureau of Reclamation	(144)	(50)
Others	(9)	(3)
Increase in Amounts to be Transferred	(25)	(6)
Net Custodial Activity	\$ -	\$ -

The accompanying notes are an integral part of these statements

Notes to the Consolidated and Combined Financial Statements

1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (the Department). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to Federal entities.

B. Description of Reporting Entity

The Department is a cabinet level agency of the Executive Branch of the U.S. Government. The Department is not subject to Federal, state, or local income taxes. The Department's headquarters organizations are located in Washington, D.C., and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary for Energy, Science and Environment; the Under Secretary for National Nuclear Security / Administrator for National Nuclear Security Administration; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission, which is an independent regulatory organization responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marketing administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. These contractors operate, maintain, or support the Department's Government-owned facilities on a day-to-day basis and provide other special work under the direction of field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting systems are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a result, these statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (i.e., employee advances and pre-paid pension costs) and liabilities (i.e., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-departmental balances and transactions have been eliminated in the *Consolidated Balance Sheets, Consolidated Statements of Net Cost,*

Consolidated Statements of Changes in Net Position, Consolidated Statements of Financing, and Consolidated Statements of Custodial Activities. The *Combined Statements of Budgetary Resources* are prepared on a combined basis and do not include intra-departmental eliminations.

D. Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see Note 3).

E. Investments, Net

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

F. Accounts Receivable, Net

The amounts due for non-intragovernmental (non-Federal) receivables are stated net of an allowance for uncollectable accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

G. Inventory, Net

Stockpile materials are recorded at historical cost in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 7).

H. General Property, Plant, and Equipment, Net

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is \$25,000, except for the power marketing administrations, which use thresholds ranging from \$5,000 to \$10,000. The capitalization threshold for internal use software is \$750,000, except for the power marketing administrations, which use thresholds ranging from \$5,000 to \$100,000 (see Note 8).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

Structures and Facilities 25 - 50 years

ADP Software 3 - 7 years

Equipment 5 - 40 years

Land and land rights duration of period or 50 years, whichever is less

I. Liabilities

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 10), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

J. Accrued Annual, Sick, and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plans

Federal Employees

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. The Department does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the Office of Personnel Management.

Contractor Employees

Most of the Department's contractors maintain a defined benefit pension plan under which they promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual employer contributions to the pension plans.

Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. The Department reports assets and liabilities of these pension plans as if it were the plan sponsor (see Note 16).

L. Net Cost of Operations

Program costs are summarized in the *Consolidated Statements of Net Cost* by the seven long-term general goals identified in the Department's FY 2004 Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these general goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 18 and 19). The general goals are summarized below.

- Nuclear Weapons Stewardship – Ensure that our nuclear weapons continue to serve their essential deterrence role by maintaining and enhancing the safety, security, and reliability of the U.S. nuclear weapons stockpile.
- Nuclear Nonproliferation – Provide technical leadership to limit or prevent the spread of materials, technology, and expertise relating to weapons of mass destruction; advance the technologies to detect the proliferation of weapons of mass destruction worldwide; and eliminate or secure inventories of surplus materials and infrastructure usable for nuclear weapons.
- Naval Reactors – Provide the Navy with safe, militarily effective nuclear propulsion plants and ensure their continued safe and reliable operation.
- Energy Security – Improve energy security by developing technologies that foster a diverse supply of reliable, affordable, and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.
- World-Class Scientific Research Capacity – Provide world-class scientific research capacity needed to: ensure the success of Department missions in national and energy security; advance the frontiers of knowledge in physical sciences and areas of biological, medical, environmental, and computational sciences; or provide world-class research facilities for the Nation's science enterprise.
- Environmental Management – Accelerate cleanup of nuclear weapons manufacturing and testing sites, completing cleanup of 108 contaminated sites by 2035.
- Nuclear Waste – License and construct a permanent repository for nuclear waste at Yucca Mountain and begin acceptance of waste by 2010.

During FY 2003 the Department transferred several operating components to the Department of Homeland Security as required by the Homeland Security Act of 2002. The costs incurred by the Department for these functions prior to their transfer are summarized in the *Consolidated Statements of Net Cost* as "Net Cost of Transferred Operations" (see Note 22).

M. Revenues and Other Financing Sources

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, financing sources include exchange and non-exchange revenues, imputed financing sources, and custodial revenues.

Exchange and Non-Exchange Revenues: In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 18). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. These revenues are not considered to reduce the cost of the Department's operations and are reported on the *Consolidated Statements of Changes in Net Position*.

Imputed Financing Sources: In certain instances program costs of the Department are paid out of funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the *Consolidated Statements of Net Cost*. In addition, these amounts are recognized as imputed financing sources on the *Consolidated Statements of Changes in Net Position* and the *Consolidated Statements of Financing*.

Custodial Revenues: The Department collects certain revenues on behalf of others which are designated as custodial revenues. The Department incurs virtually no costs to generate these revenues, nor can it use these revenues to finance its operations. These revenues are returned to Treasury and others and are reported on the *Consolidated Statements of Custodial Activities* (see Note 26).

N. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

O. Comparative Data

Certain FY 2003 amounts have been reclassified to conform to the FY 2004 presentation.

2. Non-Entity Assets

(in millions)

	FY 2004	FY 2003
<i>Intragovernmental</i>		
Fund balance with Treasury		
Naval Petroleum Reserve Deposit Fund (Note 14)	\$ 323	\$ 323
Elk Hills School Land Fund (Note 14)	118	154
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	251	260
Subtotal	\$ 692	\$ 737
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	256	256
Accounts receivable - Petroleum Pricing Violation Escrow Fund (Notes 5 and 14)	16	16
Inventories - Department of Defense stockpile oil (Notes 7 and 14)	106	106
Other	3	2
Total non-entity assets	\$ 1,073	\$ 1,117
Total entity assets	118,235	113,538
Total assets	\$ 119,308	\$ 114,655

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

Naval Petroleum Reserve Deposit Fund

The balance in this fund represents proceeds from the sale of the Naval Petroleum Reserve at Elk Hills that are being held until final disposition in accordance with the Decoupling Agreement. Approximately \$288 million is being held for a contingency payment to Chevron, Inc., pending the outcome of equity finalization. The remaining \$35 million is reserved for anticipated adjustments to Occidental's final payment and for possible reimbursement to the investment banker for an advance on its commission.

Petroleum Pricing Violation Escrow Fund

The Petroleum Pricing Violation Escrow Fund represents custodial receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance.

3. Fund Balance With Treasury (in millions)

<i>Fiscal Year 2004</i>	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	\$ 2,348	\$ 97	\$ 105	\$ -	\$ 2,550
Unavailable ^(Note 24)	132	1,354	-	-	1,486
Obligated balance not yet disbursed					
Undelivered orders	9,980	43	333	5	10,361
Unfilled customer orders	(3,702)	-	(6)	-	(3,708)
Receivables for reimbursements earned	(380)	(249)	(7)	-	(636)
Accounts payable and deposit fund liabilities	4,615	2,086	185	402	7,288
Other adjustments					
Appropriations not available pursuant to law, and contract authority	97	(1,201)	-	-	(1,104)
Unavailable receipt accounts	-	-	1,000	-	1,000
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(159)	-	(159)
Uranium Enrichment D&D Fund	-	-	(122)	-	(122)
U.S. Enrichment Corporation revolving fund	-	(1,350)	-	-	(1,350)
Total FY 2004 Fund Balance with Treasury	\$ 13,090	\$ 780	\$ 1,329	\$ 407	\$ 15,606
<i>Fiscal Year 2003</i>					
Unobligated budgetary resources					
Available	\$ 1,582	\$ 89	\$ 134	\$ -	\$ 1,805
Unavailable ^(Note 24)	498	1,305	-	-	1,803
Obligated balance not yet disbursed					
Undelivered orders	9,645	29	214	5	9,893
Unfilled customer orders	(2,709)	-	(14)	-	(2,723)
Receivables for reimbursements earned	(270)	(337)	(5)	-	(612)
Accounts payable and deposit fund liabilities	3,825	985	139	377	5,326
Other adjustments					
Appropriations not available pursuant to law, and contract authority	87	(203)	-	-	(116)
Unavailable receipt accounts	-	-	1,043	-	1,043
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(130)	-	(130)
Non-Defense Environmental Services	(163)	-	-	-	(163)
U.S. Enrichment Corporation revolving fund	-	(1,302)	-	-	(1,302)
Total FY 2003 Fund Balance with Treasury	\$ 12,495	\$ 566	\$ 1,381	\$ 382	\$ 14,824

4. Investments, Net

(in millions)

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the United States Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

	Face	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains	Market Value
Fiscal Year 2004					
<i>Intragovernmental Non-Marketable</i>					
Nuclear Waste Fund	\$ 30,518	\$ (15,342)	\$ 15,176	\$ 1,553	\$ 16,729
D&D Fund	3,657	98	3,755	57	3,812
U.S. Enrichment Corporation	1,350	-	1,350	1	1,351
Petroleum Pricing Violation Escrow Fund	252	(1)	251	-	251
Subtotal	\$ 35,777	\$ (15,245)	\$ 20,532	\$ 1,611	\$ 22,143
<i>Non-intragovernmental Marketable Securities</i>					
Petroleum Pricing Violation Escrow Fund	256	-	256	-	256
Total FY 2004 investments	\$ 36,033	\$ (15,245)	\$ 20,788	\$ 1,611	\$ 22,399
Fiscal Year 2003					
<i>Intragovernmental Non-Marketable</i>					
Nuclear Waste Fund	\$ 25,882	\$ (12,062)	\$ 13,820	\$ 1,202	\$ 15,022
D&D Fund	3,410	35	3,445	132	3,577
U.S. Enrichment Corporation	1,302	22	1,324	1	1,325
Petroleum Pricing Violation Escrow Fund	261	(1)	260	-	260
Subtotal	\$ 30,855	\$ (12,006)	\$ 18,849	\$ 1,335	\$ 20,184
<i>Non-intragovernmental Marketable Securities</i>					
Petroleum Pricing Violation Escrow Fund	256	-	256	-	256
Total FY 2003 investments	\$ 31,111	\$ (12,006)	\$ 19,105	\$ 1,335	\$ 20,440

5. Accounts Receivable, Net

(in millions)

	FY 2004			FY 2003		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	\$ 563	\$ -	\$ 563	\$ 490	\$ -	\$ 490
Non-intragovernmental						
Nuclear Waste Fund	2,955	-	2,955	2,966	-	2,966
Uranium Enrichment D&D Fund	563	-	563	731	-	731
Power marketing administrations	483	(74)	409	635	(73)	562
Petroleum Pricing Violation Escrow Fund	2,074	(2,058)	16	2,074	(2,058)	16
Credit programs	55	(26)	29	55	(26)	29
Other	185	(95)	90	145	(60)	85
Subtotal	\$ 6,315	\$ (2,253)	\$ 4,062	\$ 6,606	\$ (2,217)	\$ 4,389
Total accounts receivable	\$ 6,878	\$ (2,253)	\$ 4,625	\$ 7,096	\$ (2,217)	\$ 4,879

Intragovernmental accounts receivable primarily represent amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority, as well as interest earned on investments held in Treasury securities.

Non-intragovernmental receivables primarily represent amounts due from NWF and D&D Fund fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. D&D Fund receivables from public utilities are supported by public law. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, and other miscellaneous receivables.

The Petroleum Pricing Violation Escrow Fund receivables result from agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. The majority of these receivables are with individuals or firms that are in bankruptcy, or collection action is being taken by the Department of Justice. Many cases handled by the Department of Justice will result in complete write-offs or settlement agreements for amounts significantly less than the original agreement. Allowance accounts have been established to reflect the realistic potential for recovery of amounts owed. The methodology used to calculate the allowance accounts was derived through an intensive analysis of each case. The receivables were categorized based on the status of the case, the financial condition of the debtor, the collections received to date, and any pertinent information from the Office of General Counsel related to each case. Based on this analysis and categorization, percentages for the probability of collection were determined. The allowance account includes interest receivable of \$1,540 million as of September 30, 2004 and 2003.

6. Regulatory Assets

(in millions)

	FY 2004	FY 2003
<i>Intragovernmental</i>		
Appropriation refinancing asset	\$ 4,613	\$ 4,690
<i>Non-intragovernmental</i>		
Non-operating regulatory assets	\$ 3,990	\$ 4,038
Investor Owned Utilities Exchange Benefits	988	-
Conservation and fish and wildlife projects	453	503
Other regulatory assets	310	413
Subtotal	\$ 5,741	\$ 4,954
Total regulatory assets	\$ 10,354	\$ 9,644

The Department's power marketing administrations record certain amounts as assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

In order to defer incurred costs under SFAS No. 71, a regulated entity must have the statutory authority to establish rates that recover all costs. Rates so established must be charged to and collected from customers. Due to increasing competitive pressures, Bonneville Power Administration (BPA) may be required to seek alternative solutions in the future to avoid raising rates to a level that is no longer competitive. If BPA's rates should become market-based, SFAS No. 71 would no longer be applicable, and all of the above costs deferred under that standard would be expensed.

Appropriation Refinancing Asset

The BPA Appropriations Refinancing Act of 1996, 16 U.S.C. 8381, required that historic interest rates set on the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates and the unpaid balance as of September 30, 1996 be reduced by a matching amount. These appropriations include the unpaid balance of capital appropriations of the power generating assets of the Corps of Engineers (Corps) and the Bureau of Reclamation associated with the FCRPS. The Corps and the Bureau of Reclamation continue to own and operate these assets, with BPA having the responsibility to recover the costs of the assets from power ratepayers. BPA established an intragovernmental regulatory asset representing the repayment amount of the transmission and power generating assets that will be recovered in BPA rates. This regulatory asset is being amortized over 68 years. BPA recognized annual amortization costs of \$77 million in FY 2004 and FY 2003.

In accordance with SFAS No. 71, offsetting regulatory assets are recognized which represent the ability of BPA to repay this appropriated capital from the proceeds of power sales generated from the Corps and Bureau of Reclamation assets.

Non-Operating Regulatory Assets

BPA has acquired all or part of the potential generating capability of four terminated nuclear power plants. The Government's contracts require BPA to pay all or part of the annual projects' budgets, including debt service of the terminated plants. These projects' current and future costs are recovered through BPA's rates. The *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt.

IOU Exchange Benefits

A regulatory asset for investor owned utilities (IOU) exchange benefits was recorded pursuant to FY 2004 contracts and amendments with BPA customers. IOU exchange benefits consist of future payments to be made to BPAs investor owned utilities to be passed on to the utilities' small-farm and residual customers. The regulatory asset has an offsetting liability on the balance sheet, as these amounts will be collected in future rates (see Note 13).

Conservation and Fish and Wildlife Projects

The conservation projects consist of BPA power resource acquisitions resulting from funded customer investment in conservation measures. The fish and wildlife projects consist of facilities funded by BPA for the protection of fish and wildlife, and the mitigation of losses attributed to the development and operation of hydroelectric projects on the Columbia River and its tributaries pursuant to Section 4(h) of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. 839. BPA pays for the facilities and recovers the costs in rates but does not retain ownership of the facilities. Amortization of capitalized conservation and fish and wildlife costs is computed on a straight-line method based on estimated service lives, which are up to 20 years for conservation and 15 years for fish and wildlife.

Other Regulatory Assets

Other regulatory assets consist of intangible conservation measures for which there is an offsetting liability on the balance sheet as these amounts will be collected in future rates; settlement agreements resulting from terminated power purchase and sale contracts for which costs will be recovered in power rates; bond premiums amortized over the life of the new debt instruments; and deferred contributions for under funded post retirement benefit programs that will be recovered in future rates.

7. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve, the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, and other inventory consisting primarily of operating materials and supplies.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2004, and September 30, 2003, the Reserve contained crude oil with a historical cost of \$18,071 million and \$16,741 million, respectively. The reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. Oil from the reserve may be sold only with the approval of Congress and the President of the United States. Included in the Strategic Petroleum Reserve is crude oil held for future Department of Defense (DOD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DOD. The crude oil purchased with DOD funding is commingled with the Department's stock and is valued at its historical cost of \$106 million as of September 30, 2004 and 2003 (see Notes 2 and 14).

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. As of September 30, 2004 and 2003, the reserve contained petroleum distillate in the New England, New York, and New Jersey geographic area valued at its historical cost of \$77 million.

Nuclear Materials

Nuclear materials include weapons and related components, including those in the custody of the Department of Defense under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control/nonproliferation value and is instrumental to the U.S in ensuring that Russia continues towards the disposition of its weapons grade plutonium.

The Office of Nuclear Energy, Science and Technology has inventories amounting to a total of 19,755 metric tons of uranium hexafluoride. This total is segmented into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 metric tons of uranium associated with the natural uranium component of low-enriched uranium delivered under the U.S./Russia HEU Agreement in 1995 and 1996. Only 3,293 metric tons remain in the Department's inventories because 2,228 metric tons were sold consistent with section 3112 of the USEC Privatization Act.

The second stockpile of uranium, amounting to 11,000 metric tons, was purchased from Russia for \$325 million consistent with P.L. 105-277. This material is the natural uranium component of low enriched uranium delivered under the U.S./Russia HEU Agreement in 1997 and 1998. Final disposition of the material will not occur until after 2009 based upon an international agreement between the U.S. and Russia that requires the Department to maintain a 22,000 metric ton stockpile, and restricts the entry of the uranium into the commercial market until 2009.

The remaining uranium inventory stockpile of 5,462 metric tons is also restricted from sale into the commercial market until 2009. A limited sample and analysis indicates that a portion of the Department's stockpile of uranium hexafluoride may have technetium exceeding nuclear fuel specifications. If confirmed, the market value of the uranium, of which the carrying value exceeds \$197 million, would be significantly reduced.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

Highly Enriched Uranium

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons of the Department's highly enriched uranium (HEU) were excess to national security needs. Most of this material will be blended for sale as low-enriched uranium (LEU) and used over time as commercial nuclear reactor fuel to recover its value. The remaining portion of the material is already in the form of irradiated fuel or other waste forms, which require no processing prior to disposal. A provision for disposal of irradiated fuel is included in environmental liabilities. The carrying value of HEU for which the LEU blending product will have levels of contamination exceeding nuclear fuel specifications has been reduced to zero. A disposition liability for the estimated costs to process this "off-spec" material is included in environmental liabilities. Most of the "off-spec" material will be blended to LEU for use in Tennessee Valley Authority nuclear power reactors. Estimates of revenues and processing costs for surplus HEU were updated during FY 2004. Net revenues from sales of the remaining surplus HEU are expected to exceed the carrying value of the surplus HEU.

8. General Property, Plant and Equipment, Net (in millions)

	FY 2004			FY 2003		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	\$ 1,530	\$ (758)	\$ 772	\$ 1,480	\$ (731)	\$ 749
Structures and facilities	32,402	(21,736)	10,666	31,986	(21,514)	10,472
Internal use software	381	(130)	251	297	(90)	207
Equipment	14,496	(9,928)	4,568	14,772	(10,294)	4,478
Natural resources	65	(9)	56	60	(9)	51
Construction work in process	6,020	-	6,020	5,300	-	5,300
Total property, plant and equipment	\$ 54,894	\$ (32,561)	\$ 22,333	\$ 53,895	\$ (32,638)	\$ 21,257

9. Other Non-Intragovernmental Assets (in millions)

	FY 2004	FY 2003
Purchased Generating Capability	\$ 2,368	\$ 2,328
Prepaid pension plan costs ^(Note 16)	\$ 1,892	\$ 2,296
Oil due from others	200	440
Prepayments	331	288
Other	492	172
Total other non-intragovernmental assets	\$ 5,283	\$ 5,524

Purchased Generating Capability

Through contracts, BPA has acquired all or part of the generating capability of both a nuclear power plant and a hydroelectric project. The contracts require BPA to pay operating expenses and debt service for these facilities. The *Consolidated Balance Sheets* include an offsetting related debt for these amounts.

Oil Due from Others

The Department has a Royalty-In-Kind exchange arrangement with the Department of the Interior's Mineral Management Service (MMS) to receive crude oil from Gulf of Mexico Federal offshore leases. The oil from the MMS offshore leases was exchanged for other crude oil (exchange oil) of differing quality to be delivered to the Strategic Petroleum Reserve. As a result of companies deferring the delivery of some of the exchange oil, the Department earned additional oil as a premium. The amount of oil due from others primarily represents the value of the deferred exchange and premium barrels of oil as of September 30, 2004 and 2003.

10. Liabilities Not Covered By Budgetary Resources (in millions)

	FY 2004	FY 2003
Intragovernmental		
Appropriated capital owed ^(Note 12)	\$ 3,111	\$ 2,906
Other	15	14
Total intragovernmental	\$ 3,126	\$ 2,920
Deferred revenues ^(Note 13)		
Nuclear Waste Fund	18,145	16,932
Occupational illness program – Subtitle D ^(Notes 14 and 21)	810	-
Environmental liabilities ^(Note 15)	179,005	180,999
Pension and other actuarial liabilities ^(Note 16)	10,530	9,926
Other liabilities		
Environment, safety and health compliance activities ^(Note 14)	1,180	820
Accrued annual leave for Federal employees	109	105
Other	250	83
Contingencies and Commitments ^(Note 17)	1,943	2,881
Total liabilities not covered by budgetary resources	\$ 215,098	\$ 214,666
Total liabilities covered by budgetary resources	24,613	23,251
Total liabilities	\$ 239,711	\$ 237,917

11. Debt (in millions)

	FY 2004			FY 2003		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
<i>Intragovernmental</i>						
Borrowing from Treasury	\$ 2,698	\$ 202	\$ 2,900	\$ 2,770	\$ (72)	\$ 2,698
Refinanced appropriations	2,715	(314)	2,401	3,064	(349)	2,715
Capitalization adjustment	2,125	(69)	2,056	2,193	(68)	2,125
Subtotal	\$ 7,538	\$ (181)	\$ 7,357	\$ 8,027	\$ (489)	\$ 7,538
<i>Non-intragovernmental</i>						
Non-Federal projects	6,443	88	6,531	6,302	141	6,443
Total debt	\$ 13,981	\$ (93)	\$ 13,888	\$ 14,329	\$ (348)	\$ 13,981

Borrowing from Treasury

To finance its capital programs, the BPA is authorized by Congress to issue to Treasury up to \$4,450 million of interest-bearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. A portion (\$1,250 million) is reserved for conservation and renewable resource loans and grants. As of September 30, 2004, of the total \$2,900 million of outstanding debt, \$780 million were conservation and renewable resource loans and grants (including Corps, Bureau of Reclamation and U.S. Fish and Wildlife capital investments). The weighted average interest rates for Treasury borrowings as of September 30, 2004 and 2003, were 4.87 percent and 5.32 percent, respectively. The average interest rate of BPA's borrowings from the Treasury exceeds the rate that could be obtained currently. As a result, the fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2004 and 2003, for similar maturities, exceeds carrying value by approximately \$224 million and \$304 million, respectively. BPA's policy is to refinance debt that is callable when associated benefits exceed costs of refinancing.

Refinanced Appropriations

As discussed in Note 6, BPA refinanced the unpaid capital appropriations as of September 30, 1996. The weighted average interest rate on outstanding appropriations was 7.0 percent as of September 30, 2004 and September 30, 2003. The remaining period of repayment on refinanced appropriations is 32 years. Repayment amounts were determined based on the date the facility was placed in service using the weighted average service life of the associated investment, not to exceed 50 years.

Capitalization Adjustment

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was \$6.6 billion. After refinancing, the appropriations outstanding were \$4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over 40 years of which 32 years remain. Amortization of the capitalization adjustment was \$69 million during FY 2004 and \$68 million during FY 2003. The weighted average interest rate was 7.0 percent as of September 30, 2004 and 2003.

Non-Federal Projects

As discussed in Notes 6 and 9, the non-Federal projects debt represents the BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of five operating and non-operating nuclear power plants as well as several hydroelectric projects.

The following table summarizes future principal payments required for the debt described above:

Fiscal Year	Borrowing from Treasury	Refinanced Appropriations	Capitalization Adjustment	(in millions)
				Non-Federal Projects
2005	\$ 529	\$ 2	\$ 65	\$ 237
2006	515	16	65	255
2007	516	24	65	297
2008	365	11	65	306
2009	150	10	65	312
2010+	825	2,338	1,731	5,124
Total	\$ 2,900	\$ 2,401	\$ 2,056	\$ 6,531

12. Appropriated Capital Owed

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations for construction and operation of power projects which will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid Federal investment in the power projects. The Federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of Federal investments are generally to be repaid over their expected useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except the BPA, receives an annual appropriation to fund operation and maintenance expenses. These appropriated funds are repaid to Treasury and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of Federal investment. The Department treats these appropriations as a borrowing from Treasury and Interior, and as such, the *Consolidated Statements of Changes in Net Position* do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Notes 6 and 11, the Department's financial statements do not reflect the Federal investment in power generating facilities owned by the Department of Defense, Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 26).

13. Deferred Revenues and Other Credits

(in millions)

	FY 2004	FY 2003
Intragovernmental	\$ 149	\$ 158
Non-intragovernmental		
Nuclear Waste Fund ^(Note 10)	\$ 18,145	\$ 16,932
Power marketing administrations	1,895	896
Reimbursable work advances	183	170
Other	12	42
Subtotal	\$ 20,235	\$ 18,040
Total deferred revenues	\$ 20,384	\$ 18,198

Nuclear Waste Fund

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Annual adjustments are made to defer revenues that exceed the NWF expenses.

Power Marketing Administrations

The power marketing administrations' deferred revenues primarily represent amounts paid to BPA from participants under various alternating current intertie capacity agreements and load diversification fees paid to BPA by various customers. These one-time payments cover the remaining term of the customer's existing contractual agreement and are recognized as revenues as contract commitments are satisfied. Also included in Deferred Revenues and Other Credits is BPA's offset to IOU Exchange Benefits (see Note 6.)

14. Other Liabilities

(in millions)

Intragovernmental	FY 2004	FY 2003
Oil held for Department of Defense ^(Notes 2 and 7)	\$ 106	\$ 106
Other	156	165
Total other intragovernmental liabilities	\$ 262	\$ 271
Non-intragovernmental		
Environment, safety and health compliance activities ^(Notes 10 and 25)	\$ 1,180	\$ 820
Occupational illness program – Subtitle D ^(Notes 10, 21 and 25)	810	-
Accrued payroll and benefits	961	975
Petroleum Pricing Violation Escrow Fund ^(Note 2)	523	532
Naval Petroleum Reserve Deposit Fund ^(Note 2)	323	323
Elk Hills School Land Fund ^(Note 2)	118	154
Other	452	306
Subtotal	\$ 4,367	\$ 3,110
Total other liabilities	\$ 4,629	\$ 3,381

Environment, Safety and Health Compliance Activities

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The FY 2004 change in the ES&H liability is due to (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

Occupational Illness Program – Subtitle D

Under Subtitle D of the Energy Employees' Occupational Illness Compensation Act of 2000 (Compensation Act), the Department has provided assistance to contractor employees who developed work-related illnesses as a result of exposure to radiation and toxic substances. The Department has assisted these workers and their survivors by providing them access to panels of occupational medicine physicians, who have documented the causes of the illnesses, in particular, whether the illnesses are work-related. The results of these reviews have been used to help support the workers' claims for State Workers' Compensation benefits. The National Defense Authorization Act for Fiscal Year 2005, enacted in October 2004, clarified the amounts that will be payable under the program, which will be administered by the Department of Labor under a new Subtitle E of the Compensation Act. Using estimates developed by the Congressional Budget Office, the Department has recorded a liability for the program, which will be transferred to the Department of Labor during FY 2005.

Accrued Payroll and Benefits

Accrued payroll and benefits represent amounts owed to the Department's Federal and contractor employees.

Elk Hills School Land Fund

This balance represents the portion of the Naval Petroleum Reserve at Elk Hills' sales proceeds being retained for future disbursements to the State of California pending authorization of the Congress. In FY 2004 and FY 2003, the Department made a \$36 million payment pursuant to a legislative directive.

Other Liabilities

This balance consists primarily of liabilities associated with other deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

15. Environmental Liabilities

(in millions)

	FY 2004	FY 2003
Environmental Management Program	\$ 112,826	\$ 113,412
Legacy environmental liabilities - other	17,462	18,794
Total legacy environmental liabilities	\$ 130,288	\$ 132,206
Active and surplus facilities	30,409	30,086
High-level waste and spent nuclear fuel disposition	14,942	14,919
Other	6,103	6,223
Total environmental liabilities	\$ 181,742	\$ 183,434
Amount funded by current appropriations	(2,737)	(2,435)
Total unfunded environmental liabilities	\$ 179,005	\$ 180,999
<i>Changes in environmental liabilities</i>		
Total environmental liabilities, beginning balance	\$ 183,434	\$ 209,629
Changes to environmental liability estimates		
Legacy environmental liabilities	4,990	(19,885)
Active and surplus facilities	418	542
High-level waste and spent nuclear fuel disposition	391	443
Other	212	(135)
Total changes in estimates (Notes 21 and 25)	\$ 6,011	\$ (19,035)
Operating expenditures related to remediation activities (Note 20)	(6,667)	(6,242)
Capital expenditures related to remediation activities	(1,036)	(918)
Total environmental liabilities	\$ 181,742	\$ 183,434

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear explosion tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Assumptions and Uncertainties

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a pristine condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving pristine conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The baseline estimates reflect applicable local decisions and expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Higher funding tends to accelerate cleanup work and reduce cleanup costs; lower funding tends to delay work and increase costs. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The liabilities as of September 30, 2004 and 2003, are stated in FY 2004 dollars and FY 2003 dollars, respectively, as required by generally accepted accounting standards for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

Components of the Liability

Environmental Management Program Estimates

The Department's Office of Environmental Management (EM) is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of vast quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2004 EM life-cycle cost estimate reflect a strategic vision to complete this cleanup mission by 2035 and achieve substantial cost savings compared to earlier estimates. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and costs at each site for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The baseline estimates also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by native American tribes, regulatory agencies, and other stakeholders.

During FY 2002, EM completed a Top-to-Bottom Review (Review) to find efficient and cost effective ways to achieve greater real cleanup and risk reduction. The review's major observation was that EM has been oriented towards managing risks rather than actually reducing the risks to the public, workers, and the environment. Based upon the Review's recommendations, EM undertook a number of management reforms to restructure and focus the cleanup program. These reforms include: 1) redefining and aligning acquisition strategies, 2) revitalizing human capital 3) implementing a new budget structure that clearly identifies risk reduction and closure activities, and 4) implementing a strict configuration control system of key management parameters of the cleanup program. This fundamental restructuring and focusing of the cleanup program enabled EM to reduce the FY 2003 life-cycle cost estimate significantly. In FY 2004 progress towards improving efficiency and management of the program continued. Field offices have now prepared technical baselines that describe in detail the activities, schedule and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to ensure that cleanup progress remains on schedule and within budget. Achievement of accelerated cleanup goals is largely contingent upon receipt of funding, yet to be approved by Congress, during FY 2005 and succeeding years. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

- The Department has identified approximately 10,400 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and/or regulatory decisions have not been made for many sites. Site specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste by the first geological repository. Delays in opening the repository could cause EM project costs to increase.
- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.
- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. An example of a site for which cleanup costs are excluded is the nuclear explosion test area at the Nevada Test Site.
- The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of certain low-level wastes, generated by the Department and others, that are not suitable for near-surface disposal. The Department has not determined a disposal path and has therefore included only storage and monitoring costs for these wastes in the liability. The disposal costs for these wastes are not expected to be material in relation to the Department's environmental liabilities.

Changes to the EM baseline estimates during FY 2004 and FY 2003 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work; revisions in acquisition strategies, technical approach or scope; regulatory changes; cleanup activities performed; additional scope and transfers out of the EM baseline estimates, and additions for facilities transferred from the active and surplus category discussed below.

Legacy Environmental Liabilities - Other

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess materials for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated for a period of 75 years, i.e., through 2079. Some post-cleanup monitoring and other long-term stewardship activities are expected to continue beyond 2079, but the Department believes the costs of these activities cannot reasonably be estimated.

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to \$357 million at September 30, 2004, and \$297 million at September 30, 2003.

High-Level Waste and Spent Nuclear Fuel Disposition

The Nuclear Waste Policy Act of 1982 established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel, plus the unfunded portion of actual costs incurred to date and the accrued interest on the unfunded costs. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2004 and FY 2003 resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Other Environmental Liabilities

Other environmental liabilities consist of liabilities for disposition of surplus plutonium, depleted uranium, and highly enriched uranium.

16. Pension and Other Actuarial Liabilities

(in millions)

	FY 2004	FY 2003
Contractor pension plans	\$ 1,939	\$ 1,823
Contractor postretirement benefits other than pensions	8,471	7,978
Contractor disability and life insurance plans	25	23
Federal Employees' Compensation Act	95	102
Total pension and other actuarial liabilities	\$ 10,530	\$ 9,926

Most of the Department's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves the contractors' pension and postretirement benefit plans and is ultimately responsible for the allowable costs of funding the plans.

The Department reimburses its major contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

Contractor Pension Plans

The Department follows SFAS No. 87, *Employers' Accounting for Pensions*, for contractor employees for whom the Department has a continuing pension obligation. As of September 30, 2004, the measurement date, the Department has prepaid pension costs of \$1,902 million before minimum liability adjustment and \$1,887 after minimum liability adjustment; and accrued pension costs of \$1,054 million before minimum liability adjustment and \$1,939 million after minimum liability adjustment. The Department has a continuing obligation for a variety of contractor-sponsored pension plans (39 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (30 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Fifteen of the plans cover nonunion employees only; 11 cover union employees only; and 19 cover both union and nonunion employees.

For qualified plans, the Department's current funding policy is for contributions made to a trust during a plan year for a separate defined benefit pension plan to not exceed the greater of (1) the minimum contribution required by Section 302 of the Employee Retirement Income Security Act (ERISA) or (2) the amount estimated to eliminate the unfunded current liability as projected to the end of the plan year. The term "unfunded current liability" refers to the unfunded current liability as defined in Section 302(d)(8) of ERISA. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. The total amount invested in such securities is \$27 million.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumption consistent with an expected long-term inflation rate of 3.0 percent for the

entire U.S. economy with adjustments to reflect regional or industry rates as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used to determine the net periodic pension cost. The weighted average discount rate was 6.00 percent for FY 2004 and 6.50 percent for FY 2003; the average long-term rate of return on assets was 7.77 percent in FY 2004 and 7.90 percent in FY 2003; and the average rate of compensation increase was 4.4 percent in FY 2004 and 4.6 percent in FY 2003. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2004 and 2003, were 5.75 percent and 6.00 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The transition obligation was amortized over the greater of 15 years or the average remaining service.

Contractor Postretirement Benefits Other Than Pensions

The Department follows SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, for contractor employees for whom the Department has a continuing obligation. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2004 and 2003, the measurement dates, the Department has an accrued PRB liability of \$8,471 million and \$7,978 million, respectively. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (39 contractors), dental (20 contractors), life insurance (23 contractors), and Medicare Part B premium reimbursement (6 contractors). Thirty-eight of the contractors sponsor a traditional indemnity plan, a PPO, an HMO, or similar plan. Seventeen of these also have a point of service plan, an HMO, or similar plan. One additional contractor has only a point of service plan, an HMO, or similar plan.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade from 10.0 percent in 2004 down to 5.5 percent in 2012 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 11.0 percent in 2004 down to 5.5 percent in 2012 and later. The dental trend rates at all ages grade down from 7.0 percent in 2004 to 5.0 percent in 2012 and later.

The weighted average discount rates of 6.00 percent for FY 2004 and 6.50 percent for FY 2003, and the average long-term rate of return on assets of 6.58 percent in FY 2004 and 7.46 percent in FY 2003 were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2004 and 2003, were 5.75 percent and 6.00 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service to full eligibility for benefits of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The Department chose immediate recognition of the transition obligation existing at the beginning of FY 1994.

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The law provides for a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. There are currently 27 contractors that have concluded that their plans are at least actuarially equivalent. There are 6 plans that do not benefit retirees over 65, and 2 plans have determined they are not actuarially equivalent. These eight plans have not reflected any change due to the Act. Four plans were unable at this time to determine the effect of the Act. For the 27 plans that are at least actuarially equivalent, the Department has reflected the impact of the subsidy as an unrecognized gain, which reduced the benefit obligation by \$948 million as of September 30, 2004. The net periodic benefit cost for FY 2004 was reduced by \$123 million due to the impact of the Act. This impact includes a reduction in service cost of \$15 million, a reduction in interest cost of \$34 million, and an additional amortized gain of \$74 million. Final authoritative guidance, when issued by the Centers for Medicare and Medicaid Services, could require the Department to re-determine the impact of this legislation.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
<i>Reconciliation of funded status</i>				
Accumulated benefit obligation	\$ 21,700	\$ 19,600		
Effect of future compensation increases	3,797	3,450		
Benefit obligation	\$ 25,497	\$ 23,050	\$ 10,070	\$ 9,877
Plan assets	21,380	19,402	158	156
Funded status	\$ (4,117)	\$ (3,648)	\$ (9,912)	\$ (9,721)
Unrecognized net (asset)/obligation at transition	(749)	(869)		
Unrecognized prior service cost	962	984	(367)	(232)
Unrecognized actuarial (gain)/loss	4,752	5,007	1,813	1,979
Net amount recognized	\$ 848	\$ 1,474	\$ (8,466)	\$ (7,974)
Minimum liability adjustment	(900)	(1,005)	-	-
Prepaid/(accrued) benefit cost after minimum liability	\$ (52)	\$ 469	\$ (8,466)	\$ (7,974)
Total prepaid benefit cost after minimum liability	1,887	2,292	5	4
Total (accrued) benefit cost after minimum liability	\$ (1,939)	\$ (1,823)	\$ (8,471)	\$ (7,978)
<i>Components of net periodic costs</i>				
Service costs	\$ 749	\$ 646	\$ 236	\$ 226
Interest costs	1,394	1,308	561	553
Expected return on plan assets	(1,519)	(1,452)	(11)	(11)
Net amortization	274	173	55	85
Impact of curtailment or special termination benefits	9	29	(2)	-
Total net periodic costs	\$ 907	\$ 704	\$ 839	\$ 853
<i>Contributions and benefit payments</i>				
Employer contributions	\$ 279	\$ 167	\$ 342	\$ 264
Participant contributions	3	4	59	57
Benefit payments	986	863	412 *	331 *

* Includes \$11 million paid from plan assets for both 2004 and 2003.

(in millions)	Pension Benefits	Other Postretirement Benefits
<i>Expected contributions for fiscal year ending 9/30/2005</i>		
Employer contributions	\$277	\$304
Participant contributions	3	63

		Other Postretirement Benefits		
(in millions)	Pension Benefits	Gross Payment	Less Federal Medicare Subsidy	Net Payment
Estimated future benefit payments				
Fiscal Year 2005	\$1,015	\$356	\$0	\$356
Fiscal Year 2006	1,088	397	13	384
Fiscal Year 2007	1,180	435	30	405
Fiscal Year 2008	1,189	471	34	437
Fiscal Year 2009	1,270	509	38	471
Fiscal Year 2010 to 2014	7,867	3,111	235	2,876

The chart below shows the average target allocation for the 38 pension benefit plans and six other postretirement benefit plans with assets. The average actual fiscal year 2004 and 2003 allocations of assets are also shown.

Pension Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2004	Percent of Plan Assets at September 30, 2003
Cash and equivalents	1.1%	4.6%	5.6%
Government bonds	12.7%	9.2%	10.0%
Corporate bonds	17.8%	16.1%	17.0%
Domestic equities	44.1%	43.5%	44.9%
International equities	9.7%	9.5%	5.0%
Real Estate	1.5%	1.0%	2.2%
Insurance contracts (general accounts)	11.7%	12.3%	11.7%
Insurance contracts (separate accounts)	0.0%	2.6%	2.6%
Employer securities	0.2%	0.2%	0.3%
Other	1.2%	1.0%	0.7%
Total	100%	100%	100%

Other Postretirement Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2004	Percent of Plan Assets at September 30, 2003
Cash and equivalents	0.0%	1.0%	0.6%
Government bonds	8.0%	4.4%	11.0%
Corporate bonds	0.0%	0.0%	5.0%
Domestic equities	12.0%	14.6%	3.4%
International equities	0.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	0.0%
Insurance contracts (general accounts)	60.0%	60.0%	60.0%
Insurance contracts (separate accounts)	0.0%	0.0%	0.0%
Employer securities	0.0%	0.0%	0.0%
Other	20.0%	20.0%	20.0%
Total	100%	100%	100%

Each contractor develops its own investment policies and strategies for the plans it sponsors. Therefore, there is no one overall investment policy for the contractors' plans. Generally, their objectives provide for benefit security for plan participants through the maximization of total returns while limiting risk and providing liquidity coverage of benefit payments.

17. Contingencies and Commitments

(in millions)

	FY 2004	FY 2003
Spent nuclear fuel litigation	\$ 1,920	\$ 2,000
Waste Incidental to Reprocessing Litigation (Notes 21 and 25)	-	850
Other	23	31
Total contingencies and commitments	\$ 1,943	\$ 2,881

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where a loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government for which the Department, unless required by law, is not required to reimburse from its appropriated funds. The following are significant contingencies:

- *Spent Nuclear Fuel Litigation* - In accordance with the Nuclear Waste Policy Act of 1982 (NWPA), the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation has ensued as a result of this delay.

To date, that litigation has conclusively established that the Department's obligation to begin disposal of SNF is legally binding notwithstanding the lack of a facility to receive SNF. Currently, four suits have been settled and 60 suits by nuclear utilities, in which they collectively seek \$6.18 billion for breach of contract, remain pending in the Court of Federal Claims. The industry is reported to estimate that damages for all utilities with which the Department has contracts will be at least \$50 billion. The Department, however, believes that the industry estimate is highly inflated and that, if the Department prevails on some key disputed issues, the actual total damages suffered by all utilities as a result of the delay in beginning SNF disposal is probably in the range of between \$2 billion and \$3 billion and has recorded a liability for the low end of that range, less \$80 million that has been paid to date.

Liability is certain, and in most of the pending cases, orders have been entered affirming the Government's liability. The only outstanding issue is ascertaining the actual amount of damages. At this time, it is uncertain whether damages would be paid from the Judgment Fund, the Nuclear Waste Fund, or some other source.

- *Waste Incidental to Reprocessing (WIR) Litigation* - In July 2003, a Federal District Court in Idaho ruled that the Department's plan to classify a portion of its tank waste as other than high-level waste would violate provisions of the Nuclear Waste Policy Act of 1982. As a result, in FY 2003 the Department recorded a provision for the estimated cost impact of delays in its high-level waste program pending resolution of this litigation. The FY 2005 National Defense Authorization Act, enacted in October 2004, contains a provision that clarifies and resolves the Department's tank waste classification authority for the Savannah River Site in South Carolina and the Idaho National Engineering and Environmental Laboratory in Idaho. However, this legislation did not resolve the tank waste classification issue for the Hanford Site in Washington.

On November 5, 2004, the 9th U.S. Circuit Court of Appeals overturned the District Court's decision and directed the Court to dismiss the lawsuit. Additional legal challenges to the Department's waste

classification authority are possible. Nonetheless, the Department believes that cost impacts to its tank waste program are unlikely, and has removed the previously recorded provision for program delays from its consolidated financial statements as of September 30, 2004. If future legal challenges arise and are successful, the potential exists for significant increases to the Department's environmental liabilities.

- *Alleged Exposures to Radioactive and/or Toxic Substances* - A number of class action and/or multiple plaintiff tort suits have been filed against the Department's current and former contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of past operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Paducah, Kentucky; Portsmouth (Piketon) and Mound, Ohio; and Brookhaven, New York. Collectively, damages sought in these cases exceed \$119 billion. In addition, current and former contractors of the Department face class action lawsuits alleging exposure by contractor employees to toxic dust at the Yucca Mountain site.

These cases are being vigorously defended, and, while in some cases proceedings are not far enough advanced to evaluate their likely outcome, in some of these cases substantially all of the plaintiffs' claims have been dismissed by the courts, and the likelihood of an unfavorable outcome is remote. Accordingly, the Department believes that, to the extent that there is a reasonable possibility of an unfavorable outcome in any of these cases, any liability that might ultimately be imposed would be significantly less than what the plaintiffs seek. No related liabilities are recorded in the Department's financial statements.

- *Offsite Waste Litigation* – The State of Washington and interest groups have filed complaints in District Court seeking to prevent shipment of radioactive waste by the Department to the Hanford site. In May 2003, the Court issued a preliminary injunction against shipments of transuranic waste and the State has filed a motion to expand the preliminary injunction to include offsite low-level and mixed low-level wastes. In addition, on November 2, 2004, voters in the State of Washington approved Initiative 297, which seeks to prevent the Department from shipping offsite waste to the Hanford site until existing waste at the site is cleaned up. The impact of this litigation and the approval of Initiative 297 on the costs of the Department's cleanup program are uncertain, and as a result no provision for additional costs is included in the consolidated financial statements.
- *Depleted Uranium* – The Department has entered into settlements with the states of Kentucky and Ohio regarding the management of depleted uranium hexafluoride. The Kentucky settlement has been challenged by a lawsuit seeking to require the Department to manage the depleted uranium as hazardous waste under the Resource Conservation and Recovery Act of 1976. If the Department were required to manage this material in accordance with RCRA, it may have to make significant capital improvements and undertake additional recurring monitoring and inspection activities. The Department believes that it will be successful in defending against the lawsuit and will not be required to manage the depleted uranium as RCRA waste, and has included no provision for the costs of doing so in its consolidated financial statements.
- *Uranium Enrichment Services Pricing* - This litigation concerns whether electric utilities that purchased uranium enrichment services from the Department are entitled to retroactive price reductions based on the alleged inclusion of inappropriate costs in the prices the Government charged for enrichment services. Six complaints have been filed involving the claims of 35 utilities. In aggregate, the pending cases seek approximately \$1,058 million. In 2003, the Court of Federal Claims entered judgment in favor of the United States in the lead case. That judgment, however, was vacated by the Court of Appeals for the Federal Circuit during FY 2004 and the case was remanded to the Court of Federal Claims for further proceedings. No related liabilities are recorded in the Department's financial statements.
- *Yucca Mountain Repository* – In July 2004, the U.S. Court of Appeals in Washington, D.C. vacated a standard promulgated by the Environmental Protection Agency for the protection of the environment from

offsite releases of radioactive material from the Yucca Mountain repository. The EPA standard required the Department to limit offsite releases from the repository for 10,000 years. The Court held that EPA violated the Energy Policy Act of 1992, which required the agency to issue standards for Yucca Mountain based upon and consistent with findings by the National Academy of Sciences, whose report issued in 1995 stated that the radiation hazard from the repository might continue for a much longer period. The standard for protection from radiation is one of the criteria that the Nuclear Regulatory Commission will consider in its evaluation of a license application for the repository.

An NRC pre-licensing hearing panel has vacated a certification by the Department that all available licensing documentation was submitted in June 2004 to the NRC licensing support network. The Department expects to certify or re-certify the documentation prior to submitting the license application. In addition, the State of Nevada has filed a lawsuit challenging the Department's Record of Decision on the mode of transportation and selection of a rail corridor for disposal of radioactive waste at the repository.

The impact of the matters discussed in the two preceding paragraphs upon NRC's evaluation of a license application and upon the Department's schedule to open the repository is unknown.

- *Termination of a Fixed-Price Remediation Subcontract at the Idaho National Engineering and Environment Laboratory (INEEL)* - In 1998, DOE's former Management and Operating contractor for INEEL, Lockheed Martin Idaho Technologies Co. (LMITCO), terminated the Pit 9 Comprehensive Demonstration Project Subcontract with Lockheed Martin Advanced Environmental Systems, Inc. (LMAES) for default and thereafter filed suit against LMAES in the United States District Court for the District of Idaho seeking return of \$54 million LMITCO had advanced for that subcontract and for other additional remedies. In response, LMAES filed a counterclaim against LMITCO for \$317 million. A bench trial before the District Court concluded in November 2003, and in November 2004, the court issued its decision rejecting LMAES' counterclaim and concluding that LMITCO had properly terminated the Pit 9 subcontract for default and that, pursuant to its guarantee of performance, LMAES is required to return over \$54 million in advance payments made to it by LMITCO, together with interest at the rate of 12% per annum beginning July 1, 1998. The court further held that LMAES is responsible for the reasonable estimate of nearly \$12 million for Decontamination and Decommissioning (D&D) costs. The court reserved a ruling on attorneys' fees and costs. Exclusive of attorneys' fees, LMAES' liability under the decision amounts to approximately \$107. At this time it is uncertain whether LMAES will appeal the decision to the U.S. Court of Appeals for the 9th Circuit.
- *Purchase/Sales Commitments and Irrigation Assistance*

The PMAs have entered into various agreements for power and transmission purchases and sales that vary in length but generally do not exceed 20 years. Current rates recover the additional costs of the obligations. The sales commitments are arrangements to sell expected surplus generating capabilities at future dates and the purchase commitments are to purchase power at future dates when the PMAs forecasts a shortage of generating capability and prices are favorable. These contracts maximize revenues on estimated surplus volumes.

As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation and are required only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues (expenses) when paid.

The following table summarizes future purchase power/sales commitments and irrigation assistance.

	(in millions)		
Fiscal Year	Purchase Power	Sales Commitments	Irrigation Assistance
2005	\$ 657	\$ 2,279	\$ -
2006	597	2,117	-
2007	111	1,554	-
2008	68	1,563	3
2009	64	1,562	7
2010+	132	3,140	658
Total	\$ 1,629	\$ 12,215	\$ 668

18. Earned Revenues

(in millions)

	FY 2004	FY 2003
Naval Reactors		
Intragovernmental	\$ (8)	\$ (22)
Energy Security		
Public	\$ (4,013)	\$ (4,566)
Intragovernmental	(76)	(60)
Total Energy Security	(4,089)	(4,626)
Environmental Management		
Public	\$ (16)	\$ (16)
Intragovernmental	(137)	(144)
Total Environmental Management	(153)	(160)
Nuclear Waste		
Public	\$ (722)	\$ (723)
Intragovernmental	(812)	(792)
Less Deferred Revenue Adjustment	1,212	1,189
Total Nuclear Waste	(322)	(326)
Reimbursable Programs		
Public	\$ (404)	\$ (392)
Intragovernmental	(2,353)	(1,938)
Total Reimbursable Programs	(2,757)	(2,330)
Other Programs		
Federal Energy Regulatory Commission		
Public ^(Note 19)	\$ (213)	\$ (203)
Other		
Public	(90)	(19)
Total Other Programs	(303)	(222)
Total earned revenues	\$ (7,632)	\$ (7,686)

Energy Security

These revenues primarily result from the Department's power marketing activities. The Department's four power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations and maintenance costs, repay the capital investments with interest, and assist capital repayment of other features and certain projects. Revenues collected by the Southeastern, Southwestern, and Western Area power marketing administrations on behalf of other agencies are reported as custodial activity (see Note 26).

Environmental Management

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning DOE's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Interest earned on accumulated funds in excess of those needed to pay current program costs totaled \$131 million and \$135 million for September 30, 2004 and 2003, respectively.

Nuclear Waste

The Nuclear Waste Policy Act of 1982 requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of \$736 million and \$728 million were assessed as of September 30, 2004 and 2003, respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled \$799 million and \$787 million for FY 2004 and FY 2003, respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., as costs are incurred for the Civilian Radioactive Waste Management program).

Reimbursable Programs

The Department performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. The Department also has entered into cooperative research and development agreements to increase the transfer of Federally funded technologies to the private sector for the benefit of the U.S. economy.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost. In some cases, the full cost information reported by the Department in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; and the National Defense Authorization Act for Fiscal Year 1999, which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were \$2,341 million and \$1,949 million for FY 2004 and FY 2003, respectively.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission (FERC) is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline, and non-Federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing, administration, and safety actions are consistent with the public interest. FERC assesses most of its administrative program costs as an annual charge to each regulated entity.

19. Supporting Schedule of Net Costs for Other Programs (in millions)

	FY 2004	FY 2003
Federal Energy Regulatory Commission		
Program costs - public	\$ 213	\$ 203
Less earned revenues (Note 18)	(213)	(203)
	\$ -	\$ -
Inspector General	41	36
Environment Safety and Health	162	138
Other Defense Activities	298	302
Other programs - public		
Program costs	\$ 44	\$ 45
Less earned revenues (Note 18)	(90)	(19)
	(46)	26
Total net cost for other programs	\$ 455	\$ 502

20. Costs Applied to Reduction of Legacy Environmental Liabilities

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes generated from past operations. These amounts are excluded from current year program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

21. Costs Not Assigned (in millions)

	FY 2004	FY 2003
Change in unfunded environmental liability estimates (Note 15)	\$ 6,011	\$ (19,035)
Changes in contractor pension and PRB estimates (Notes 9 & 16)	1,013	1,224
Waste Incidental to Reprocessing Litigation (Note 17)	(850)	850
Change in unfunded safety and health liabilities (Note 14)	360	84
Change in occupational illness program -		
Subtitle B	846	(267)
Subtitle D (Notes 10 & 14)	810	-
Radiation Exposure Compensation Act	-	-
Other	87	95
Total	\$ 8,277	\$ (17,049)

Compensation Program for Occupational Illnesses

Subtitle B

Public Law 106-398, the Energy Employees Occupational Illness Compensation Program Act of 2000, authorized compensation for certain illnesses suffered by employees of the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Subtitle B covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee or survivors of deceased employees will receive compensation for the disability or death of that employee in the amount of \$150,000 plus the costs of medical care. A supplement to the Radiation Exposure Compensation Act (RECA) beneficiaries is also available in the amount of \$50,000. The law makes future payments under this program the responsibility of the Department of Labor. Therefore, the remaining liability is not recorded by the

Department. The amount of the change in total liability is recognized by the Department as an imputed cost and as an imputed financing source. During FY 2004 the amount of the liability increased by \$846 million.

Radiation Exposure Compensation Act

On October 15, 1990, the Radiation Exposure Compensation Act (RECA) was enacted providing for payments to individuals who contracted certain cancers and other serious diseases presumably as a result of their exposures to radiation released during above ground nuclear weapons tests or as a result of their employment associated with the uranium mining industry during the Cold War era. RECA provided that the Department of Justice administer the program. This program is similar to the Compensation Program for Occupational Illnesses noted above. The remaining liability under the RECA program is not recorded by, and is not the responsibility of, the Department. There was no change in the accrued liability during FY 2004. The amount of the change in this accrued liability in FY 2003 was not calculated by the Department of Justice but was not considered material.

22. Net Cost of Transferred Operations

The Homeland Security Act of 2002 created the Department of Homeland Security (DHS) to prevent terrorist attacks within the United States and to reduce the vulnerabilities of the United States to terrorism. In accordance with the Homeland Security Act of 2002, the Department transferred certain functions to DHS as of March 1, 2003. The cost of these functions prior to their transfer to DHS is reported as "Net Cost of Transferred Operations" on the *Consolidated Statements of Net Cost*. The specific functions transferred include:

- The National Infrastructure Simulation and Analysis Center and other elements of the Energy Security and Assurance Program;
- The chemical and biological national security and supporting programs and activities of the nonproliferation and verification research and development program;
- The nuclear smuggling programs and activities within the proliferation detection program of the nonproliferation and verification research and development program;
- The nuclear assessment program activities within the assessment, detection, and cooperation program of the international materials protection and cooperation program;
- Life sciences activities of the biological and environmental research program related to microbial pathogens;
- The Environmental Measurements Laboratory;
- The advanced scientific computing research program activities at Lawrence Livermore National Laboratory.

23. Nuclear Waste Fund Offsetting Receipts, Deferred

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury securities of the Nuclear Waste Fund are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts, interest collected, and the market value adjustments for zero coupon bond investments are reported as offsetting receipts on the *Consolidated Statements of Financing*. Therefore, a reconciling amount is reported for that portion of the offsetting receipts for which revenues are not recognized in the current period.

24. Statement of Budgetary Resources

(in millions)

The *Statement of Budgetary Resources* is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

Details of Obligations Incurred:

	FY 2004	FY 2003
Direct, subject to apportionment	\$ 23,878	\$ 22,732
Direct, not subject to apportionment	4,547	3,483
Reimbursable, subject to apportionment	4,062	3,530
Total obligations incurred	\$ 32,487	\$ 29,745

Adjustments to Beginning Balances of Budgetary Resources:

	FY 2004	FY 2003
Prior year unobligated balance, net - end of period		
Available, apportioned	\$ 1,790	\$ 1,501
Exempt from apportionment	15	9
Not available	1,803	1,642
Total - prior year unobligated balance	\$ 3,608	\$ 3,152
Other Adjustments	(32)	(41)
Prior year balance temporarily not available pursuant to public law	-	40
Current year unobligated balance, start of period	\$ 3,576	\$ 3,151

Unobligated Balances Not Available:

	FY 2004	FY 2003
United States Enrichment Corporation Fund	\$ 1,350	\$ 1,301
Reimbursable work/collections in excess of amount anticipated	119	299
Prior year deobligations in excess of apportioned amount	4	194
Expired appropriations and other amounts not apportioned	13	9
Total unobligated balances not available	\$ 1,486	\$ 1,803

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

Reconciliation to the Budget:

	FY 2004			FY 2003		
	Budgetary Resources	Obligations Incurred	Outlays	Budgetary Resources	Obligations Incurred	Outlays
Combined Statement of Budgetary Resources	\$ 36,523	\$ 32,487	\$ 23,087	\$ 33,353	\$ 29,745	\$ 21,721
OMB adjustments made to exclude						
United States Enrichment Corporation	(1,350)	-	48	(1,301)	-	43
Expired accounts	(7)	-	-	(9)	-	-
Other	-	-	-	(7)	1	(1)
Budget of the United States Government	\$ 35,166	\$ 32,487	\$ 23,135	\$ 32,036	\$ 29,746	\$ 21,763

The FY 2004 *Combined Statement of Budgetary Resources* final reconciliation will be done once the President's Budget is published in February 2005. The FY 2003 *Combined Statement of Budgetary Resources* is reconciled to the President's Budget that was published in February 2004.

25. Increases/(Decreases) in Unfunded Liabilities (in millions)

	FY 2004	FY 2003
Change in unfunded environmental liability estimates ^(Note 15)	\$ 6,011	\$ (19,035)
Change in contractor net pension and PRB liabilities ^(Notes 9 and 16)	1,013	1,224
Waste Incidental to Reprocessing Litigation ^(Note 17)	(850)	850
Change in unfunded safety and health liabilities ^(Note 14)	360	84
Compensation program for occupational illnesses - Subtitle D ^(Notes 14 and 21)	810	-
Change in other unfunded liabilities	213	30
Total increases/(decreases) in unfunded liabilities	\$ 7,557	\$ (16,847)

26. Custodial Activities (in millions)

	FY 2004	FY 2003
Cash Collections		
Power marketing administrations	\$ 624	\$ 512
Petroleum Pricing Violation Escrow Fund	3	4
Other	75	20
Total cash collections for custodial activities	\$ 702	\$ 536

Power Marketing Administrations

The Southeastern, Southwestern, and Western Area Power Marketing Administrations are responsible for collecting and remitting to the Department of the Treasury revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, Army Corps of Engineers; the Department of Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

Petroleum Pricing Violation Escrow Fund

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result primarily from interest earned from investment of the fund balance, which is invested in U.S. Treasury Bills and certificates of deposit with minority owned financial institutions, pending determination of the disposition of the funds. Funds are disbursed to individuals and groups who are able to provide proof of financial injury related to the violations of Petroleum Pricing Regulations during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

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Consolidating Schedules

Consolidating Schedules - Balance Sheets

As of September 30, 2004 and 2003
(\$ in millions)

	FY 2004			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
ASSETS				
Intragovernmental				
Fund Balance with Treasury	\$ 105	\$ 1,046	\$ 14,455	\$ -
Investments, Net	-	-	20,532	-
Accounts Receivable, Net	-	24	1,538	(999)
Regulatory Assets	-	4,613	-	-
Other	-	4	38	(29)
Total Intragovernmental	\$ 105	\$ 5,687	\$ 36,563	\$ (1,028)
Investments, Net	-	-	256	-
Accounts Receivable, Net	34	385	3,643	-
Inventory, Net				
Strategic Petroleum & Northeast Home Heating Oil Reserves	-	-	18,148	-
Nuclear Materials	-	-	21,722	-
Other	-	95	341	-
General Property, Plant, and Equipment, Net	8	5,647	16,678	-
Regulatory Assets	-	5,741	-	-
Other	-	3,085	2,198	-
Total Assets	\$ 147	\$ 20,640	\$ 99,549	\$ (1,028)
LIABILITIES				
Intragovernmental				
Accounts Payable	\$ 3	\$ 16	\$ 228	\$ (146)
Debt	-	7,357	-	-
Appropriated Capital Owed	-	3,111	-	-
Deferred Revenues and Other Credits	-	105	926	(882)
Other	55	54	153	-
Total Intragovernmental	\$ 58	\$ 10,643	\$ 1,307	\$ (1,028)
Accounts Payable	6	221	3,156	-
Debt	-	6,531	-	-
Deferred Revenues and Other Credits	-	1,895	18,340	-
Environmental Liabilities	-	-	181,742	-
Pension and Other Actuarial Liabilities	-	51	10,479	-
Other	62	189	4,116	-
Contingencies and Commitments	-	-	1,943	-
Total Liabilities	\$ 126	\$ 19,530	\$ 221,083	\$ (1,028)
NET POSITION				
Unexpended Appropriations	\$ 18	\$ 4	\$ 8,762	\$ -
Cumulative Results of Operations	3	1,106	(130,296)	-
Total Net Position	\$ 21	\$ 1,110	\$ (121,534)	\$ -
Total Liabilities and Net Position	\$ 147	\$ 20,640	\$ 99,549	\$ (1,028)

See independent auditors' report.

FY 2003					
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ 15,606	\$ 88	\$ 846	\$ 13,890	\$ -	\$ 14,824
20,532	-	-	18,849	-	18,849
563	-	31	1,532	(1,073)	490
4,613	-	4,690	-	-	4,690
13	-	4	35	(32)	7
\$ 41,327	\$ 88	\$ 5,571	\$ 34,306	\$ (1,105)	\$ 38,860
256	-	-	256	-	256
4,062	40	531	3,818	-	4,389
18,148	-	-	16,818	-	16,818
21,722	-	-	22,144	-	22,144
436	-	99	354	-	453
22,333	11	5,385	15,861	-	21,257
5,741	-	4,954	-	-	4,954
5,283	-	2,702	2,822	-	5,524
\$ 119,308	\$ 139	\$ 19,242	\$ 96,379	\$ (1,105)	\$ 114,655
\$ 101	\$ 1	\$ 37	\$ 102	\$ (17)	\$ 123
7,357	-	7,538	-	-	7,538
3,111	-	2,906	-	-	2,906
149	-	105	1,141	(1,088)	158
262	42	63	166	-	271
\$ 10,980	\$ 43	\$ 10,649	\$ 1,409	\$ (1,105)	\$ 10,996
3,383	6	234	2,847	-	3,087
6,531	-	6,443	-	-	6,443
20,235	-	896	17,144	-	18,040
181,742	-	-	183,434	-	183,434
10,530	-	58	9,868	-	9,926
4,367	68	59	2,983	-	3,110
1,943	-	-	2,881	-	2,881
\$ 239,711	\$ 117	\$ 18,339	\$ 220,566	\$ (1,105)	\$ 237,917
\$ 8,784	\$ 15	\$ 10	\$ 8,875	\$ -	\$ 8,900
(129,187)	7	893	(133,062)	-	(132,162)
\$ (120,403)	\$ 22	\$ 903	\$ (124,187)	\$ -	\$ (123,262)
\$ 119,308	\$ 139	\$ 19,242	\$ 96,379	\$ (1,105)	\$ 114,655

See independent auditors' report.

Consolidating Schedules of Net Cost

For Years Ended September 30, 2004 and 2003
(\$ in millions)

	FY 2004			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
GENERAL GOALS				
Nuclear Weapons Stewardship: Program Costs	\$ -	\$ -	\$ 6,220	\$ -
Nuclear Nonproliferation: Program Costs	\$ -	\$ -	\$ 1,101	\$ -
Naval Reactors: Program Costs	-	-	740	-
Less: Earned Revenues	-	-	(8)	-
Net Cost of Naval Reactors	\$ -	\$ -	\$ 732	\$ -
Energy Security: Program Costs	-	3,722	2,723	(67)
Less: Earned Revenues	-	(4,107)	(34)	52
Net Cost of Energy Security	\$ -	\$ (385)	\$ 2,689	\$ (15)
World-Class Scientific Research Capacity: Program Costs	-	-	3,196	-
Environmental Management: Program Costs	-	-	6,732	(449)
Less: Earned Revenues	-	-	(153)	-
Net Cost of Environmental Management	\$ -	\$ -	\$ 6,579	\$ (449)
Nuclear Waste: Program Costs	-	-	530	-
Less: Earned Revenues	-	-	(196)	(126)
Net Cost of Nuclear Waste	\$ -	\$ -	\$ 334	\$ (126)
Net Cost of General Goals	\$ -	\$ (385)	\$ 20,851	\$ (590)
OTHER PROGRAMS:				
Reimbursable Programs: Program Costs	-	-	2,738	-
Less: Earned Revenues	-	-	(2,757)	-
Net Cost of Reimbursable Programs	\$ -	\$ -	\$ (19)	\$ -
Other Programs: Program Costs	213	-	642	(97)
Less: Earned Revenues	(213)	-	(187)	97
Net Cost of Other Programs	\$ -	\$ -	\$ 455	\$ -
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(6,667)	-
Costs Not Assigned	-	-	8,151	126
Net Cost of Continuing Operations	\$ -	\$ (385)	\$ 22,771	\$ (464)
Net Cost of Transferred Operations	-	-	-	-
Net Cost of Operations	\$ -	\$ (385)	\$ 22,711	\$ (464)

See independent auditors' report.

	FY 2003				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ 6,220	\$ -	\$ -	\$ 5,214	\$ -	\$ 5,214
\$ 1,101	\$ -	\$ -	\$ 968	\$ -	\$ 968
740	-	-	687	-	687
(8)	-	-	(22)	-	(22)
\$ 732	\$ -	\$ -	\$ 665	\$ -	\$ 665
6,378	-	3,894	2,392	(51)	6,235
(4,089)	-	(4,552)	(112)	38	(4,626)
\$ 2,289	\$ -	\$ (658)	\$ 2,280	\$ (13)	\$ 1,609
3,196	-	-	3,068	-	3,068
6,283	-	-	6,720	(433)	6,287
(153)	-	-	(160)	-	(160)
\$ 6,130	\$ -	\$ -	\$ 6,560	\$ (433)	\$ 6,127
530	-	-	421	-	421
(322)	-	-	(157)	(169)	(326)
\$ 208	\$ -	\$ -	\$ 264	\$ (169)	\$ 95
\$ 19,876	\$ -	\$ (658)	\$ 19,019	\$ (615)	\$ 17,746
2,738	-	-	2,351	-	2,351
(2,757)	-	-	(2,330)	-	(2,330)
\$ (19)	\$ -	\$ -	\$ 21	\$ -	\$ 21
758	203	-	609	(88)	724
(303)	(202)	-	(108)	88	(222)
\$ 455	\$ 1	\$ -	\$ 501	\$ -	\$ 502
(6,667)	-	-	(6,242)	-	(6,242)
8,277	-	-	(17,218)	169	(17,049)
\$ 21,922	\$ 1	\$ (658)	\$ (3,919)	\$ (446)	\$ (5,022)
-	-	-	44	-	44
\$ 21,922	\$ 1	\$ (658)	\$ (3,875)	\$ (446)	\$ (4,978)

See independent auditors' report.

Consolidating Schedules of Changes in Net Position

For Years Ended September 30, 2004 and 2003

(\$ in millions)

	FY 2004			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balance	\$ 7	\$ 893	\$ (133,062)	\$ -
Budgetary Financing Sources:				
Appropriations Used	(3)	6	23,106	-
Nonexchange Revenues	-	-	13	-
Donations, Financial	-	-	1	-
Transfers - In/Out Without Reimbursement, Budgetary	-	(178)	(82)	-
Other Financing Sources:				
Transfers - In/Out Without Reimbursement, Nonbudgetary	(9)	-	1,040	-
Imputed Financing from Costs Absorbed by Others	8	-	1,003	-
Other	-	-	456	(464)
Total Financing Sources	\$ (4)	\$ (172)	\$ 25,537	\$ (464)
Net Cost of Operations	-	385	(22,771)	464
Ending Balance - Cumulative Results of Operations	\$ 3	\$ 1,106	\$ (130,296)	\$ -
UNEXPENDED APPROPRIATIONS:				
Beginning Balance	\$ 15	\$ 10	\$ 8,875	\$ -
Budgetary Financing Sources Related to Appropriations:				
Appropriations Received	-	-	23,173	-
Appropriations Transferred - In/Out	-	-	11	-
Other Adjustments	-	-	(191)	-
Appropriations Used	3	(6)	(23,106)	-
Total Financing Sources Related to Appropriations	\$ 3	\$ (6)	\$ (113)	\$ -
Ending Balance - Unexpended Appropriations	\$ 18	\$ 4	\$ 8,762	\$ -

See independent auditors' report.

	FY 2003				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ (132,162)	\$ 27	\$ 218	\$ (159,561)	\$ -	\$ (159,316)
23,109	(3)	-	21,377	-	21,374
13	-	-	20	-	20
1	-	-	-	-	-
(260)	-	20	(28)	-	(8)
1,031	(11)	(4)	997	-	982
1,011	10	1	(189)	-	(178)
(8)	(15)	-	447	(446)	(14)
\$ 24,897	\$ (19)	\$ 17	\$ 22,624	\$ (446)	\$ 22,176
(21,922)	(1)	658	3,875	446	4,978
\$ (129,187)	\$ 7	\$ 893	\$ (133,062)	\$ -	\$ (132,162)
\$ 8,900	\$ -	\$ 11	\$ 8,195	\$ -	\$ 8,206
23,173	-	-	22,248	-	22,248
11	-	(1)	(25)	-	(26)
(191)	12	-	(166)	-	(154)
(23,109)	3	-	(21,377)	-	(21,374)
\$ (116)	\$ 15	\$ (1)	\$ 680	\$ -	\$ 694
\$ 8,784	\$ 15	\$ 10	\$ 8,875	\$ -	\$ 8,900

See independent auditors' report.

Combining Schedules of Budgetary Resources

For Years Ended September 30, 2004 and 2003
(\$ in millions)

	FY 2004			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Combined
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	\$ 3	\$ 215	\$ 23,972	\$ 24,190
Borrowing and Contract Authority	-	1,681	-	1,681
Net Transfers	-	(74)	(11)	(85)
Unobligated Balance				
Beginning of Period	4	176	3,396	3,576
Net Transfers, Actual	-	-	(2)	(2)
Spending Authority from Offsetting Collections				
Earned				
Collected	204	3,948	2,851	7,003
Receivable from Federal Sources	-	(86)	109	23
Change in Unfilled Customer Orders				
Advances received	-	(39)	(1)	(40)
Without Advances from Federal Sources	-	(8)	993	985
Recoveries of Prior Year Obligations	-	-	32	32
Authority Temporarily Not Available	-	-	(101)	(101)
Authority Permanently Not Available	-	(482)	(257)	(739)
Total Budgetary Resources	\$ 211	\$ 5,331	\$ 30,981	\$ 36,523
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 205	\$ 247	\$ 23,426	\$ 23,878
Exempt from Apportionment	-	4,356	191	4,547
Reimbursable	-	568	3,494	4,062
Total Obligations Incurred	\$ 205	\$ 5,171	\$ 27,111	\$ 32,487
Unobligated Balances Available				
Apportioned Available	6	160	2,372	2,538
Exempt from Apportionment	-	-	12	12
Unobligated Balances Not Available	-	-	1,486	1,486
Total Status of Budgetary Resources	\$ 211	\$ 5,331	\$ 30,981	\$ 36,523
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obligated Balance - Beginning of Period	\$ 24	\$ 870	\$ 10,612	\$ 11,506
Obligated Balance, Transferred	-	-	-	-
Obligated Balance, Net of Transfers - Beginning of Period	\$ 24	\$ 870	\$ 10,612	\$ 11,506
Obligated Balance - End of Period				
Accounts Receivable	\$ -	\$ (256)	\$ (380)	\$ (636)
Unfilled Customer Orders from Federal Sources	-	(8)	(3,700)	(3,708)
Undelivered Orders	12	164	10,185	10,361
Accounts Payable	14	2,182	4,690	6,886
	\$ 26	\$ 2,082	\$ 10,795	\$ 12,903
Outlays				
Disbursements	\$ 204	\$ 4,052	\$ 25,794	\$ 30,050
Collections	(205)	(3,910)	(2,848)	(6,963)
Subtotal	\$ (1)	\$ 142	\$ 22,946	\$ 23,087
Less: Offsetting Receipts	(19)	(531)	(2,611)	(3,161)
Net Outlays	\$ (20)	\$ (389)	\$ 20,335	\$ 19,926

See independent auditors' report.

FY 2003							
Federal Energy Regulatory Commission		Power Marketing Administrations		All Other DOE Programs		Combined	
\$	3	\$	193	\$	22,848	\$	23,044
	-		673		-		673
	-		(128)		(118)		(246)
	2		157		2,992		3,151
	-		-		74		74
	192		4,066		2,486		6,744
	-		38		37		75
	-		84		15		99
	-		9		551		560
	-		-		218		218
	-		-		(90)		(90)
	-		(796)		(153)		(949)
\$	197	\$	4,296	\$	28,860	\$	33,353
\$	193	\$	233	\$	22,306	\$	22,732
	-		3,344		139		3,483
	-		543		2,987		3,530
\$	193	\$	4,120	\$	25,432	\$	29,745
	4		176		1,610		1,790
	-		-		15		15
	-		-		1,803		1,803
\$	197	\$	4,296	\$	28,860	\$	33,353
\$	34	\$	637	\$	10,527	\$	11,198
	-		-		(20)		(20)
\$	34	\$	637	\$	10,507	\$	11,178
\$	-	\$	(342)	\$	(270)	\$	(612)
	-		(16)		(2,707)		(2,723)
	11		170		9,712		9,893
	13		1,058		3,877		4,948
\$	24	\$	870	\$	10,612	\$	11,506
\$	203	\$	3,841	\$	24,520	\$	28,564
	(192)		(4,150)		(2,501)		(6,843)
\$	11	\$	(309)	\$	22,019	\$	21,721
	(23)		(612)		(1,744)		(2,379)
\$	(12)	\$	(921)	\$	20,275	\$	19,342

See independent auditors' report.

Consolidating Schedules of Financing

For Years Ended September 30, 2004 and 2003

(\$ in millions)

	FY 2004			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	\$ 205	\$ 5,171	\$ 27,111	\$ -
Less: Spending Authority from Offsetting Collections and Recoveries	(204)	(3,815)	(3,984)	-
Obligations, Net of Offsetting Collections and Recoveries	\$ 1	\$ 1,356	\$ 23,127	\$ -
Offsetting Receipts	(19)	(531)	(2,611)	-
Net Obligations	\$ (18)	\$ 825	\$ 20,516	\$ -
Other Resources:				
Imputed Financing from Costs Absorbed by Others	7	-	1,004	-
Transfers-In/Out	(9)	-	1,040	-
NWF Offsetting Receipts, Deferred	-	-	2,095	-
Other	-	-	7	(15)
Net Other Resources Used to Finance Activities	\$ (2)	\$ -	\$ 4,146	\$ (15)
Total Resources Used to Finance Activities	\$ (20)	\$ 825	\$ 24,662	\$ (15)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	\$ (1)	\$ (42)	\$ 549	\$ -
Resources that Finance the Acquisition of Assets	-	(542)	(3,894)	-
Resources that Fund Expenses Recognized in Prior Periods	-	-	(7,298)	-
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	19	291	517	(740)
Other Resources and Adjustments	(3)	(1,673)	(302)	165
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 15	\$ (1,966)	\$ (10,428)	\$ (575)
Total Resources Used to Finance the Net Cost of Operations	\$ (5)	\$ (1,141)	\$ 14,234	\$ (590)
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Decreases in Unfunded Liability Estimates	\$ 1	\$ 178	\$ 7,252	\$ 126
Increase in Exchange Revenue Receivable from the Public	-	3	-	-
Total Components Requiring or Generating Resources in Future Periods:	\$ 1	\$ 181	\$ 7,252	\$ 126
Components Not Requiring or Generating Resources:				
Depreciation and Amortization	\$ 2	\$ 447	\$ 1,090	\$ -
Revaluation of Assets and Liabilities	-	-	(161)	-
Other	2	128	356	-
Total Components Not Requiring or Generating Resources	\$ 4	\$ 575	\$ 1,285	\$ -
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	\$ 5	\$ 756	\$ 8,537	\$ 126
NET COST OF OPERATIONS	\$ -	\$ (385)	\$ 22,771	\$ (464)

See independent auditors' report.

	FY 2003				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ 32,487	\$ 193	\$ 4,120	\$ 25,432	\$ -	\$ 29,745
(8,003)	(192)	(4,197)	(3,307)	-	(7,696)
\$ 24,484	\$ 1	\$ (77)	\$ 22,125	\$ -	\$ 22,049
(3,161)	(23)	(612)	(1,744)	-	(2,379)
\$ 21,323	\$ (22)	\$ (689)	\$ 20,381	\$ -	\$ 19,670
1,011	10	1	(190)	-	(179)
1,031	(11)	(4)	997	-	982
2,095	-	-	1,177	-	1,177
(8)	15	(1)	13	(13)	14
\$ 4,129	\$ 14	\$ (4)	\$ 1,997	\$ (13)	\$ 1,994
\$ 25,452	\$ (8)	\$ (693)	\$ 22,378	\$ (13)	\$ 21,664
\$ 506	\$ (2)	\$ 29	\$ (233)	\$ -	\$ (206)
(4,436)	-	(408)	(4,103)	-	(4,511)
(7,298)	-	-	(6,191)	-	(6,191)
87	23	414	520	(737)	220
(1,813)	(7)	(758)	(351)	135	(981)
\$ (12,954)	\$ 14	\$ (723)	\$ (10,358)	\$ (602)	\$ (11,669)
\$ 12,498	\$ 6	\$ (1,416)	\$ 12,020	\$ (615)	\$ 9,995
\$ 7,557	\$ -	\$ 15	\$ (17,031)	\$ 169	\$ (16,847)
3	(10)	(10)	1	-	(19)
\$ 7,560	\$ (10)	\$ 5	\$ (17,030)	\$ 169	\$ (16,866)
\$ 1,539	\$ 4	\$ 428	\$ 1,144	\$ -	\$ 1,576
(161)	-	-	(149)	-	(149)
486	1	325	140	-	466
\$ 1,864	\$ 5	\$ 753	\$ 1,135	\$ -	\$ 1,893
\$ 9,424	\$ (5)	\$ 758	\$ (15,895)	\$ 169	\$ (14,973)
\$ 21,922	\$ 1	\$ (658)	\$ (3,875)	\$ (446)	\$ (4,978)

See independent auditors' report.

Consolidating Schedules of Custodial Activities

For Years Ended September 30, 2004 and 2003
(\$ in millions)

	FY 2004			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
SOURCES OF COLLECTIONS				
Cash Collections				
Interest	\$ -	\$ -	\$ 3	\$ -
Federal Energy Regulatory Commission	75	-	-	-
Power Marketing Administration Custodial Revenue	-	624	-	-
Total Cash Collections	\$ 75	\$ 624	\$ 3	\$ -
Accrual Adjustment	6	(5)	3	-
Total Revenue	\$ 81	\$ 619	\$ 6	\$ -
DISPOSITION OF REVENUE				
Transferred to Others				
Department of the Treasury	(26)	(485)	(10)	-
Army Corps of Engineers	(7)	-	-	-
Bureau of Reclamation	(6)	(138)	-	-
Others	(3)	-	(6)	-
(Increase)/Decrease in Amounts to be Transferred	(39)	4	10	-
Net Custodial Activity	\$ -	\$ -	\$ -	\$ -

See independent auditors' report.

	FY 2003				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ 3	\$ -	\$ -	\$ 4	\$ -	\$ 4
75	20	-	-	-	20
624	-	512	-	-	512
\$ 702	\$ 20	\$ 512	\$ 4	\$ -	\$ 536
4	16	(7)	3	-	12
706	\$ 36	\$ 505	\$ 7	\$ -	\$ 548
(521)	(5)	(469)	(8)	-	(482)
(7)	(7)	-	-	-	(7)
(144)	(6)	(44)	-	-	(50)
(9)	(2)	1	(2)	-	(3)
(25)	(16)	7	3	-	(6)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See independent auditors' report.

Required Supplementary Stewardship Information for Research and Development (unaudited)

The Department of Energy is the single largest Federal government supporter of basic research in the physical sciences in the United States, providing more than 40 percent of total Federal funding. It oversees, and is the principal Federal funding agency of, the Nation's research programs in high energy physics, nuclear physics and fusion energy sciences. Our diverse research portfolio supports tens of thousands of principal investigators, post-doctoral students and graduate students tackling some of the most challenging scientific questions of our era.

In accordance with Statement of Federal Financial Accounting Standard Number 8 - "Supplementary Stewardship Reporting Chapter 7 - Research and Development," the Department reports the following expenses for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits. Investments in research and development refer to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years ending September 30 (in millions)

	Direct Cost	FY 2004 Depreciation & Other Managerial Cost	Total Cost	Direct Cost	FY 2003 Depreciation & Other Managerial Cost	Total Cost
BASIC						
Nuclear Nonproliferation	\$13.2	\$1.0	\$14.2	\$10.1	\$1.5	\$11.6
Energy Security						
Energy Efficiency	30.3	4.6	34.9	24.0	3.5	27.5
Fossil Energy	7.1	.8	7.9	10.0	1.2	11.2
Power Marketing Administration**	3.4	-	3.4	3.3	-	3.3
World-Class Scientific Research	2,581.3	583.4	3,164.7	2,448.0	594.0	3,042.0
Environmental Management	-	-	-	-	-	-
TOTAL BASIC	\$2,635.3	\$589.8	\$3,225.1	\$2,495.4	\$600.2	\$3,095.6

* FY 2001 & FY 2000 information provided via crosswalk from previous report format utilizing responsibility segments.

** Full R&D investments for the Power Marketing Administrations are included under direct costs of the Energy Security Goal.

Direct Cost	FY2002 Depreciation & Other Managerial Cost	Total Cost	Direct Cost	FY2001 * Depreciation & Other Managerial Cost	Total Cost	Direct Cost	FY2000 * Depreciation & Other Managerial Cost	Total Cost
\$8.4	\$1.3	\$9.7	\$15.5	\$1.7	\$17.2	\$13.5	\$1.4	\$14.9
30.2	5.4	35.6	26.2	8.0	34.2	27.9	4.4	32.3
5.9	1.5	7.4	7.0	2.0	9.0	5.3	1.4	6.7
3.2	-	3.2	3.0	-	3.0	1.3	-	1.3
2,598.0	506.0	3,104.0	2,204.8	392.0	2,596.8	2,096.0	328.6	2424.6
-	-	-	33.8	6.1	39.9	39.5	6.6	46.1
\$2,645.7	\$514.2	\$3,159.9	\$2,290.3	\$409.8	\$2,700.1	\$2,183.5	\$342.4	\$2,525.9

**Supplementary Stewardship Reporting
on Research and Development Costs
for Fiscal Years ending September 30
(in millions)**

	Direct Cost	FY 2004 Depreciation & Other Managerial Cost	Total Cost	Direct Cost	FY 2003 Depreciation & Other Managerial Cost	Total Cost
APPLIED						
Nuclear Weapons Stewardship	\$1,888.0	\$405.0	\$2,293.0	\$1,660.5	\$454.5	\$2,115.0
Nuclear Nonproliferation	60.4	4.4	64.8	95.2	13.8	109.0
Energy Security						
Energy Efficiency	202.4	20.1	222.5	169.7	21.9	191.6
Fossil Energy	176.5	19.5	196.0	186.7	21.7	208.4
Nuclear Energy	74.3	6.5	80.8	12.3	1.2	13.5
Electric Transmissions and Distribution	18.7	2.1	20.8	-	-	-
Power Marketing Administration**	11.8	-	11.8	11.4	-	11.4
World-Class Scientific Research	3.1	0.5	3.6	2.9	0.5	3.4
Environmental Management	28.1	4.1	32.2	23.4	4.4	27.8
Nuclear Waste	65.3	1.8	67.1	75.8	1.0	76.8
Other Defense Activities	12.0	5.4	17.4	-	-	-
TOTAL APPLIED	\$2,540.6	\$469.4	\$3,010.0	\$2,237.9	\$519.0	\$2,756.9
DEVELOPMENT						
Nuclear Weapons Stewardship	\$543.4	\$121.0	\$664.4	\$734.3	\$221.5	\$955.8
Nuclear Nonproliferation	49.4	3.1	52.5	66.1	9.9	76.0
Naval Reactors	667.1	17.7	684.8	621.8	16.3	638.1
Energy Security						
Energy Efficiency	422.1	41.8	463.9	352.4	42.8	395.2
Fossil Energy	192.9	20.8	213.7	202.1	23.0	225.1
Nuclear Energy	20.6	1.6	22.2	16.0	2.4	18.4
Electric Transmissions and Distribution	38.0	3.2	41.2	-	-	-
Power Marketing Administration**	8.8	-	8.8	8.7	-	8.7
Environmental Management	65.5	9.6	75.1	54.7	10.3	65.0
Nuclear Waste	-	-	-	-	-	-
Other Defense Activities	26.3	12.4	38.7	32.0	15.3	47.3
TOTAL DEVELOPMENT	\$2,034.1	\$231.2	\$2,265.3	\$2,088.1	\$341.5	\$2,429.6
TOTAL RESEARCH AND DEVELOPMENT	\$7,210.0	\$1,290.4	\$8,500.4	\$6,821.4	\$1,460.7	\$8,282.1

* FY 2001& FY 2000 information provided via crosswalk from previous report format utilizing responsibility segments.

**Full R&D investments for the Power Marketing Administrations are included under direct costs of the Energy Security Goal.

Direct Cost	FY 2002 Depreciation & Other Managerial Cost	Total Cost	Direct Cost	FY 2001 * Depreciation & Other Managerial Cost	Total Cost	Direct Cost	FY 2000 * Depreciation & Other Managerial Cost	Total Cost
\$1,700.0	\$379.6	\$2,079.6	\$1,416.2	\$222.5	\$1,638.7	\$1,213.0	\$128.1	\$1,341.1
72.2	11.0	83.2	75.9	7.4	83.3	\$66.1	7.4	73.5
180.4	11.8	192.2	231.7	24.3	256.0	208.0	26.0	234.0
131.6	10.3	141.9	133.0	35.3	168.3	120.0	31.0	151.0
20.9	5.0	25.9	26.8	2.8	29.6	-	-	-
-	-	-	-	-	-	-	-	-
11.1	-	11.1	10.8	-	10.8	10.5	-	10.5
37.9	4.3	42.2	81.0	1.1	82.1	75.7	4.2	79.9
89.9	20.8	110.7	77.7	15.5	93.2	72.2	12.0	84.2
62.5	2.6	65.1	60.4	3.1	63.5	58.7	4.7	63.4
-	-	-	-	-	-	-	-	-
\$2,306.5	\$445.4	\$2,751.9	\$2,113.5	\$312.0	\$2,425.5	\$1,824.2	\$213.4	\$2,037.6
\$726.6	\$175.7	\$902.3	\$643.3	\$201.7	\$845.0	\$547.5	\$50.8	\$598.3
83.8	13.3	97.1	79.1	7.4	86.5	88.9	10.1	99.0
653.0	16.6	669.6	604.5	40.9	645.4	633.5	59.9	693.4
403.5	30.3	433.8	461.0	51.7	512.7	444.8	44.6	489.4
167.6	17.4	185.0	157.6	36.9	194.5	150.5	41.9	192.4
-	-	-	-	-	-	19.0	2.9	21.9
-	-	-	-	-	-	-	-	-
8.7	-	8.7	8.4	-	8.4	9.6	-	9.6
134.8	31.2	166.0	116.6	23.2	139.8	108.3	17.9	126.2
-	-	-	-	-	-	7.6	2.1	9.7
4.3	0.5	4.8	30.3	12.1	42.4	6.5	0.3	6.8
\$2,182.3	\$285.0	\$2,467.3	\$2,100.8	\$373.9	\$2,474.7	\$2,016.2	\$230.5	\$2,246.7
\$7,134.5	\$1,244.6	\$8,379.1	\$6,504.6	\$1,095.7	\$7,600.3	\$6,023.9	\$786.3	\$6,810.2

Research and Development Activities and Significant Accomplishments By General Goal:

Nuclear Weapons Stewardship: *Applied & Development*

Defense Program activities (1) providing the scientific understanding and engineering development capabilities necessary to support near-term and long-term requirements of the nuclear stockpile; (2) providing scientific understanding of the nuclear package of the weapons systems in order to sustain our ability to certify the nuclear weapons stockpile, support stockpile refurbishment and life extension and to provide capabilities and components necessary to support maintenance and refurbishment in the absence of nuclear testing; and (3) activities ensuring the weapons complex and its facilities and infrastructure are in place to manufacture and certify the 21st century nuclear weapons stockpile.

The applied research and development program of the advanced simulation and computing campaign helps to support the nuclear weapons stewardship goal by ensuring that our nuclear weapons will continue to serve their essential deterrence role. One key goal of the National Nuclear Security Administration is to predict, with confidence, the behavior of nuclear weapons through comprehensive, science based simulations. This will require leading edge, high-end simulation capabilities necessary to meet weapons assessment and certification requirements. Such capabilities include developing weapon codes, weapon science, platforms, computer facilities and the necessary support to make the system operate together. This requires developing high-speed computer platforms with capability measured in trillion of operations per second (Teraflops). The Department intends to have an individual platform capable of performing 100 Teraflop of advanced computations in operation by 2005. For FY 2004, the Department committed to deliver a platform that can perform 40 Teraflops, that is 10 TeraBytes memory and 240 Terabytes storage. However, testing a new chip design has taken longer than planned and has delayed the delivery and operation of the 40 Teraflops platform. At the completion of FY 2004 maximum individual computing capability remains at 20 Teraflops.

Nuclear Nonproliferation: *Basic, Applied & Development*

Activities conducted to provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks.

Under the Department's goal to have all worldwide fissile nuclear materials under controls acceptable to the United States by 2025, nonproliferation verification research and development program will develop new technologies to improve our detection and monitoring capabilities. Advanced radiation and remote sensing technologies will be developed and evaluated through customized tests which challenge and characterize their operating parameters. For FY 2004, the Department committed to seven of such technologies intended to improve the accuracy in detecting the early stages of nuclear weapons programs. The Department exceeded this target and conducted nine tests during FY 2004.

Naval Reactors: *Development*

Activities included development, demonstration, improvement, and safe operation of nuclear propulsion plants and reactor cores for application to submarines and surface ships.

The next generation submarine reactor plant design applied research and development program helps to provide the Navy with safe, militarily effective nuclear propulsion plants. For FY 2004, the Department committed to one hundred percent completion of the next generation plant design. The target was met, the VIRGINIA is in final sea trials and scheduled for commissioning in early FY 2005.

ENERGY SECURITY

Energy Efficiency and Renewable Energy: *Basic, Applied & Development*

Activities (1) conducted in solar technologies; (2) conducted in geothermal technologies; (3) conducted in wind and hydropower technologies; (4) conducted in hydrogen and fuel cell technologies for transportation, stationary, and portable application; (5) related to energy conservation for the building sector, including residential building, commercial building, and retrofit technologies; (6) related to distributed energy technologies; (7) related to biomass technologies; (8) related to implementation of energy efficiency and renewable energy in the federal sector; (9) conducted in support of energy conservation and energy supply for the industry sector; (10) conducted in support of energy conservation for the transportation sector, including automotive alternative fuels and electric vehicles; and, (11) related to activities in energy conservation and renewable energy for Intergovernmental activities including the State Energy Program and Weatherization Program.

The Department will improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options. The hydrogen technology program is one such example. This program will research, develop and validate hydrogen production, delivery and storage for transportation and stationary applications. This program is also a key component of the President's Hydrogen Fuel Initiative, allowing the Nation to move forward and achieve a vision of a diverse, secure and emissions-free future. Research under this program is targeted to reduce the cost of distributed production of hydrogen from natural gas, enable cost competitive production from renewables and provide storage technology. By 2010, the Department would like to bring down the cost of the hydrogen equivalent of a gallon of gas to \$1.50. For FY 2004, the department committed to complete research for natural gas-to-hydrogen production and dispensing component development and fabrication towards achieving 5,000 pounds per square inch hydrogen for \$3.00 per gallon of gas equivalent at the station (untaxed and without co-production of electricity). The Department did not meet this target in FY 2004. Process engineering, controls engineering, safety reviews and operability reviews have begun and final system deployment is expected in the third quarter of 2005.

Fossil Energy: *Basic, Applied & Development*

Activities (1) related improving acceptable technology for converting coal to liquid and gaseous fuels, improving methods for direct combustion of coal, and advancing power conversion systems for generating electricity from coal; (2) carried out in support of natural gas recovery; (3) conducted to support advanced technologies for the petroleum and oil from oil shale recovery of oil and natural gas, technologies and development in drilling, offshore oil production and refining, and characterization and utilization research; and, (4) carried out as a result of cooperative research awards from competitive solicitations initiated under the Fossil Energy Federal/State Program as well as other research activities relating to mining research.

Nuclear Energy: *Applied & Development*

Activities carried out to address key issues affecting the future of Nuclear Energy and ensuring current nuclear plants can continue to operate up to and beyond their initial license period. Including, the deployment of the next generation nuclear energy system, development and demonstration on the feasibility of nuclear energy for the large scale, emission-free production of hydrogen and innovative research and development on advanced fuel cycle technologies and electrometallurgical treatment of the Department's sodium-bonded spent nuclear fuel.

Power Marketing Administration: *Basic, Applied & Development*

Research activities primarily supporting the Fish and Wildlife programs at Bonneville Power Administration.

Electric Transmission and Distribution: *Applied & Development*

Research and development activities addressing high temperature superconductivity, transmission reliability, electric distribution transformation, and innovative energy storage.

World-Class Scientific Research Capacity: *Basic & Applied*

Research in the areas of (1) advanced scientific computing relevant to the complex problems of the Department and providing world class supercomputer and networking facilities for scientists; (2) basic energy sciences including nuclear sciences, materials sciences, chemical sciences, engineering geosciences, energy biosciences, advanced energy projects and advanced mathematical sciences; (3) biological and environmental research needed to identify, understand, and anticipate the long term health and environmental consequences of energy production, development, and use; (4) fusion energy sciences including broad-based, fundamental research efforts aimed at producing knowledge on fusion; (5) high energy physics activities directed at understanding the nature of matter and energy; (6) nuclear physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and, (7) small business innovative research/technology transfer support for energy related technologies that will significantly benefit US businesses, a technology transfer initiative.

In an effort to provide world-class scientific research, the Department has developed a high energy physics program designed to understand the universe at a more basic level, searching for possible new dimensions of space. High energy physics experiments involve precise measurements of phenomena buried in a background of noise or conventional physics processes. Such particle interaction is measured by luminosity, specifically the chance that a proton will collide with an antiproton, the higher the luminosity, the greater the chance of massive particle production. Integrated luminosity integrates out the time dependence in order to get a total number of events. To achieve high integrated luminosity, as many particles as possible must be placed into the detector. Scientists are eager to increase the integrated luminosity (measured in inverse picobarns) and produce more collisions increasing the chance of observing new particle reactions. For FY 2004 the Department committed to deliver within 20 percent of the baseline estimate of 240 inverse picobarns of integrated data. The Department delivered 331 inverse picobarns of integrated data during FY 2004.

Environmental Management: *Applied & Development*

Technology development activities (1) to support site closure through technical support and quick response highly focused science and technology projects and (2) develop and provide the scientific and technical rationale to support development of alternative approaches and step improvements for high risk/high cost baseline estimates.

Nuclear Waste: *Applied*

Activities conducted on the long-term storage of high level nuclear waste at a permanent underground repository.

Other Defense Activities: *Applied & Development*

Activities related to systems development that may be used or shared with other federal agencies and private industry as well as activities related to the protection of the nation's energy infrastructure.

Required Supplementary Information (unaudited)

This section of the report provides required supplementary information (RSI) for the Department on deferred maintenance, budgetary resources by major budget account and intra-governmental balances.

Deferred Maintenance

Deferred maintenance information is a requirement under SFFAS No.6, *Accounting for Property, Plant and Equipment* and SFFAS No.14, *Amendments to Deferred Maintenance* which requires deferred maintenance to be disclosed as of the end of each fiscal year. Deferred maintenance is defined in SFFAS No.6 as “maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.” Estimates were developed for:

Buildings and Other Structures and Facilities	\$3,804 million
Capital Equipment	\$61 million
TOTAL	\$3,865 million

Buildings, and Other Structures and Facilities

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

In accordance with standards identified in the National Association of College and University Business Officers, in “Managing the Facilities Portfolio”, the acceptable operation conditions standard is equal to a Facility Condition Index (FCI) of < 5 percent.

As of September 30, 2004, an amount of \$3,804 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 69 percent.

Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No.6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) is not applicable to property items with an acquisition cost of less than \$100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department’s capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of \$61 million of deferred maintenance was estimated to be needed as of September 30, 2004, to return capital equipment assets to acceptable operating condition.

Budgetary Resources by Major Account
For the Year Ended September 30, 2004
(\$ in millions)

	Fossil Energy R&D 89-0213	Energy Conservation 89X0215	Science 89X0222	Energy Supply 89-0224	Weapons Activities 89-0240
BUDGETARY RESOURCES					
Budgetary Authority	\$ 667	\$ 879	\$ 3,544	\$ 748	\$ 6,250
Unobligated Balance, Net - Beginning of Period	388	27	27	119	534
Spending Authority from Offsetting Collections	-	(1)	-	808	2,863
Recoveries of Prior Year Obligations	4	2	2	4	1
Authority Temporarily Not Available	-	-	-	-	-
Authority Permanently Not Available	(8)	(11)	(21)	(10)	(37)
Total Budgetary Resources	\$ 1,051	\$ 896	\$ 3,552	\$ 1,669	\$ 9,611
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	\$ 506	\$ 880	\$ 3,539	\$ 1,603	\$ 8,766
Unobligated Balances Available	543	15	13	63	731
Unobligated Balances Not Available	2	1	-	3	114
Total Status of Budgetary Resources	\$ 1,051	\$ 896	\$ 3,552	\$ 1,669	\$ 9,611
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	\$ 468	\$ 664	\$ 1,859	\$ 497	\$ 1,890
Obligated Balance, Net - End of Period	\$ 478	\$ 617	\$ 2,059	\$ 583	\$ 1,575
Outlays	491	926	3,336	706	6,218
Less: Offsetting Receipts	-	-	-	-	-
Net Outlays	\$ 491	\$ 926	\$ 3,336	\$ 706	\$ 6,218

	Other Defense Activities 89-0243	Defense Environmental Services 89X0249	Defense Site Acceleration Completion 89-0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314
BUDGETARY RESOURCES					
Budgetary Authority	\$ 701	\$ 989	\$ 5,642	\$ 1,375	\$ 767
Unobligated Balance, Net -Beginning of Period	32	61	96	301	2
Spending Authority from Offsetting Collections	-	-	-	-	-
Recoveries of Prior Year Obligations	3	2	1	5	-
Authority Temporarily Not Available	-	-	-	-	-
Authority Permanently Not Available	(4)	(21)	(33)	(8)	(5)
Total Budgetary Resources	\$ 732	\$ 1,031	\$ 5,706	\$ 1,673	\$ 764
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	\$ 712	\$ 941	\$ 5,681	\$ 1,166	\$ 762
Unobligated Balances Available	19	89	25	502	2
Unobligated Balances Not Available	1	1	-	5	-
Total Status of Budgetary Resources	\$ 732	\$ 1,031	\$ 5,706	\$ 1,673	\$ 764
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	\$ 429	\$ 330	\$ 2,486	\$ 964	\$ 211
Obligated Balance, Net - End of Period	\$ 461	\$ 298	\$ 2,536	\$ 966	\$ 246
Outlays	677	972	5,630	1,158	727
Less: Offsetting Receipts	-	-	-	-	-
Net Outlays	\$ 677	\$ 972	\$ 5,630	\$ 1,158	\$ 727

	Bonneville Power Administration 89X4045	Western Area Power Administration 89X5068	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
BUDGETARY RESOURCES					
Budgetary Authority	\$ 1,607	\$ 178	\$ -	\$ 2,439	\$ 25,786
Unobligated Balance, Net Beginning of Period	-	111	1,301	575	3,574
Spending Authority from Offsetting Collections	3,229	357	48	667	7,971
Recoveries of Prior Year Obligations	-	-	1	7	32
Authority Temporarily Not Available	-	-	-	(101)	(101)
Authority Permanently Not Available	(481)	(1)	-	(99)	(739)
Total Budgetary Resources	\$ 4,355	\$ 645	\$ 1,350	\$ 3,488	\$ 36,523
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	\$ 4,355	\$ 559	\$ -	\$ 3,017	\$ 32,487
Unobligated Balances Available	-	86	-	462	2,550
Unobligated Balances Not Available	-	-	1,350	9	1,486
Total Status of Budgetary Resources	\$ 4,355	\$ 645	\$ 1,350	\$ 3,488	\$ 36,523
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	\$ 617	\$ 202	\$ 1	\$ 888	\$ 11,506
Obligated Balance, Net - End of Period	\$ 1,804	\$ 220	\$ -	\$ 1,060	\$ 12,903
Outlays	(61)	184	(48)	2,171	23,087
Less: Offsetting Receipts	(63)	-	-	(3,098)	(3,161)
Net Outlays	\$ (124)	\$ 184	\$ (48)	\$ (927)	\$ 19,926

Schedule of Intragovernmental Amounts
For Fiscal Year 2004
(\$ in millions)

Intragovernmental Assets:

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Regulatory Assets	Other
U.S. Treasury	\$ 15,606	\$ 20,532	\$ 112	\$ 4,613	\$ 5
Defense Agencies	-	-	227	-	5
Department of the Interior	-	-	6	-	-
Department of Homeland Security	-	-	34	-	-
Tennessee Valley Authority	-	-	44	-	-
Health & Human Services	-	-	14	-	-
Other	-	-	126	-	3
Total intragovernmental assets	\$ 15,606	\$ 20,532	\$ 563	\$ 4,613	\$ 13

Intragovernmental Liabilities:

Agency	Accounts Payable	Debt	Appropriated Capital Owed	Deferred Revenues	Other
U.S. Treasury	\$ 17	\$ 7,357	\$ 3,111	\$ 94	\$ 91
Defense Agencies	35	-	-	15	106
Department of Agriculture	2	-	-	-	-
Department of the Interior	7	-	-	6	40
General Services Administration	13	-	-	3	-
Office of Personnel Management	15	-	-	-	7
Department of State	1	-	-	4	-
Other	11	-	-	27	18
Total intragovernmental liabilities	\$ 101	\$ 7,357	\$ 3,111	\$ 149	\$ 262

Intragovernmental Earned Revenues, Costs, Transfers, and Non-Exchange Revenues:

Agency	Earned Revenues	Costs	Transfers (Out)- Custodial	Transfers In/(Out) - Other	Non- Exchange Revenues
Defense Agencies	\$ 1,453	\$ 102	\$ (7)	\$ -	\$ -
U.S. Treasury	906	508	(521)	(94)	13
Department of Health & Human Services	152	38	-	-	-
National Aeronautics and Space Administration	126	2	-	-	-
Nuclear Regulatory Commission	78	4	-	(33)	-
Department of Homeland Security	241	3	-	-	-
Department of the Interior	26	38	(144)	1,094	-
Office of Personnel Management	4	255	-	-	-
General Services Administration	8	99	-	-	-
Tennessee Valley Authority	43	34	-	-	-
Other	349	143	(9)	(171)	-
Total	\$ 3,386	\$ 1,226	\$ (681)	\$ 796	\$ 13

Auditors' Report

Memorandum from the Inspector General



Department of Energy
Washington, DC 20585

November 9, 2004

MEMORANDUM FOR THE SECRETARY

FROM:

Greg Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Report on the Department of Energy's
Fiscal Year 2004 Consolidated Financial Statements

This is to inform you that the Department's consolidated financial statements for Fiscal Year 2004 have received an unqualified audit opinion. This achievement is especially noteworthy considering the significant challenges associated with meeting the Government-wide accelerated reporting date of November 15, 2004. To meet this demanding schedule, the Department established and adhered to a stringent internal financial reporting schedule throughout the year. Although faced with a number of competing demands associated with competitive sourcing and financial systems development, Headquarters and field financial managers and staff were successful in meeting each of its reporting milestones. The high level of cooperation and the continuing excellent working relationship between the Department's managers and the Office of Inspector General (OIG) permitted the expeditious and successful resolution of all problems that could have threatened the reporting schedule.

The audit disclosed that the Department met the challenges posed in the President's Management Agenda by improving financial reporting and successfully eliminating the previous year's reportable condition on performance measurement. Although the Department made considerable progress towards resolving the prior year's reportable condition in unclassified information system security, the audit revealed that the condition continues to exist. Specifically, the Department has certain network vulnerabilities and general access control weaknesses that could put the integrity of financial system data at risk. The Department generally concurred with the audit findings and initiated or agreed to initiate specific corrective actions.

The Department is responsible for the preparation of the statements and the OIG is responsible for the audit. The OIG contracted with the auditing firm of KPMG LLP to conduct the audit. KPMG is responsible for expressing an opinion on the Department's consolidated financial statements and reporting on applicable internal controls, and compliance with laws, regulations, contracts and grant agreements.



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The audit of the Department's statements was conducted pursuant to the Government Management and Reform Act of 1994. The objective of the Act is to improve financial practices in the Federal Government by issuing audited financial statements for each agency. The OIG monitored KPMG's audit progress and reviewed the audit report and related documentation to ensure compliance with generally accepted Government auditing standards. The OIG, however, did not express an independent opinion on the Department's financial statements.

I would like to thank all elements of the Department for their courtesy and cooperation during the conduct of the audit.

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Director, Office of Management, Budget and Evaluation/Chief Financial Officer

Audit Report: DOE/OAS-FS-05-01



2001 M Street, NW
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

The Inspector General, United States Department of Energy and
Secretary, United States Department of Energy:

We have audited the accompanying consolidated balance sheets of the United States Department of Energy (Department) as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements"), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its consolidated financial statements.

As described in our opinion on the consolidated financial statements, we did not audit the fiscal year 2004 or 2003 financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the years ended September 30, 2004 and 2003 are included in the accompanying consolidated financial statements, or the fiscal year 2004 financial statements of Southwestern Power Administration or Southeastern Power Administration, whose Department-related financial data as of and for the year ended September 30, 2004 are included in the accompanying consolidated financial statements. Those statements were audited by other auditors whose reports have been furnished to us and were considered in forming our overall opinion on the Department's consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, based upon our audits and the reports of other auditors, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2004 and 2003, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our opinion emphasizes that the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control.

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
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Independent Auditors' Report, Continued

Our consideration of internal control over financial reporting resulted in one matter, related to unclassified network and information systems security, being identified as a reportable condition. However, this reportable condition is not believed to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Department's consolidated financial statements, our consideration of the Department's internal control over financial reporting, our tests of the Department's compliance with certain provisions of applicable laws and regulations, management's responsibilities, and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the United States Department of Energy as of September 30, 2004 and 2003, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statements of budgetary resources, for the years then ended.

We did not audit the fiscal year 2004 or 2003 financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the years ended September 30, 2004 and 2003 are included in the accompanying consolidated financial statements, or the fiscal year 2004 financial statements of Southwestern Power Administration or Southeastern Power Administration, whose Department-related financial data as of and for the year ended September 30, 2004 are included in the accompanying consolidated financial statements. When combined and compared to the Department's consolidated financial statements, the financial data for these entities represent 17 percent of total assets; 54 percent of total earned revenues; and 13 percent of total program costs for as of and for the year ended September 30, 2004, and 17 percent of total assets; 58 percent of total earned revenues; and 15 percent of total program costs as of and for the year ended September 30, 2003, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the fiscal year 2004 and 2003 amounts included for Bonneville Power Administration and Western Area Power Administration, and the fiscal year 2004 amounts included for Southwestern Area Power Administration and Southeastern Power Administration, is based solely upon the reports of the other auditors.

In our opinion, based upon our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Independent Auditors' Report, Continued

As discussed in Notes 15 and 17 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of \$182 billion and \$183 billion as of September 30, 2004 and 2003, respectively, are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the Department's *Fiscal Year 2004 Performance and Accountability Report* is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section of the Department's *Fiscal Year 2004 Performance and Accountability Report* is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities of the Department's components individually. The information in the Consolidating Schedules section has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based upon our audits and the reports of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The information in the Performance Results section and the Appendices is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures, except for the testing of controls over selected performance measures, described in the Responsibilities section of this report, and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being



Independent Auditors' Report, Continued

audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2004 audit, we noted the following matter, described in more detail in Exhibit I, involving internal control over financial reporting and its operation that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

Unclassified Network and Information Systems Security – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities, although less frequent and less severe than in prior years, increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

A summary of the status of the prior year reportable conditions is included as Exhibit II.

We will report on other matters involving internal control over financial management systems and its operation, and internal control over financial reporting and its operation, in separate letters.

Compliance and Other Matters

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

Responsibilities

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA) requires each Chief Financial Officers (CFO) Act agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the Department prepares annual consolidated financial statements.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;



Independent Auditors' Report, Continued

- Establishing and maintaining internal controls over financial reporting, and preparing Management's Discussion and Analysis (including the performance measures), Required Supplementary Stewardship Information, and Required Supplementary Information; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2004 and 2003 consolidated financial statements of the Department based upon our audits and the reports of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2004 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in



Independent Auditors' Report, Continued

operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2004 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the Government Accountability Office, and the United States Congress, and is not intended to be used and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2004, except as to Note 17, which is as of November 5, 2004

Independent Auditors' Report
Exhibit I –Reportable Condition

Unclassified Network and Information Systems Security

The Department maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites we, and the Department's Office of Independent Oversight and Performance Assurance (OA), reviewed in prior years. However, we and the OA continued to identify network security weaknesses at sites reviewed in fiscal year 2004, although the frequency and severity of those weaknesses were less than in prior years. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services.

Our fiscal year 2004 audit also disclosed weaknesses in access controls at several sites, similar to our prior year findings. Specifically, we noted weaknesses in physical access controls, monitoring of networks for questionable activity, password security, and review and approval of user access privileges. Further, the Department's Office of Inspector General also reported deficiencies in the Department's network and information system risk management, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2004. This report included an examination of non-financial systems.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal year 2004, the Department's Chief Information Officer continued the implementation of initiatives to identify the root causes of the control weaknesses and to develop new policies and procedures to strengthen controls and reduce network vulnerabilities. Once fully implemented, these policies and procedures should strengthen the Department's cyber security program.

The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems.

Recommendation:

While considerable progress has been achieved, continued focus is needed to resolve the network vulnerability and access control weaknesses described above. Therefore, we recommend that the Department's Chief Information Officer, in conjunction with program officials, fully implement policies and procedures to ensure that the Federal information security standards are met and that its networks and information systems are adequately protected against unauthorized access.

Independent Auditors' Report
Exhibit I – Reportable Condition, Continued

Detailed recommendations to address the issues discussed above have been separately reported to the Office of the Chief Information Officer.

Management's Response:

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendation.

Independent Auditors' Report
Exhibit II – Status of Prior Year Audit Findings

<u>Reportable Conditions from Fiscal Year 2003</u> (with parenthetical disclosure of year first reported)	<u>Status at September 30, 2004</u>
--	--

- | | |
|---|--|
| 1. Unclassified Information Systems Security (1999) | Still reported in Exhibit I as a reportable condition. |
| 2. Performance Measurement Reporting (1997) | Closed. |



Department of Energy

Washington, DC 20585

November 8, 2004

KPMG LLP
2001 M Street, NW
Washington, DC 20036

I am providing this letter in connection with your audit of the United States Department of Energy (Department) consolidated balance sheets as of September 30, 2004 and 2003, and the related consolidated statements of net costs, changes in net position, financing, and custodial activities, and the related combined statements of budgetary resources, for the years then ended. We have reviewed your Independent Auditors' Report and provide the following response to your recommendation.

Reportable Condition: Unclassified Network and Information Systems Security

Auditors' Recommendation:

While considerable progress has been achieved, continued focus is needed to resolve network vulnerability and access control weaknesses. Therefore, we recommend that the Department's Chief Information Officer, in conjunction with program officials, fully implement policies and procedures to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access.

Management Response:

The Chief Information Officer (CIO) concurs with the auditors' recommendation to fully implement policy and procedures to improve cyber security, targeting the areas of access control and configuration management. The Department has made considerable progress in closing policy gaps in FY 2004, and is moving forward to ensure policy is being consistently implemented through defined procedures throughout the system lifecycle. The CIO will obtain the full audit findings, including supporting documentation and testing information, and develop a detailed action plan that includes resources and milestones for correcting specifically identified weaknesses.

The CIO is reorienting the Office of Cyber Security programs and priorities to reduce cyber security vulnerabilities across the Department enterprise. This action will include leveraging a number of existing program successes while realigning our focus around critical areas of risk and vulnerability management. Particular emphasis will be given to improving configuration management controls across the enterprise, strengthening access controls, and harmonizing configuration control and patch management processes.

The Office of the Chief Information Officer's (OCIO) Extended Common Integrated Technology Environment (eXCITE) initiative is providing the foundation for configuration management. The eXCITE initiative provides common desktop and hosted application environments that are maintained with proactive configuration management



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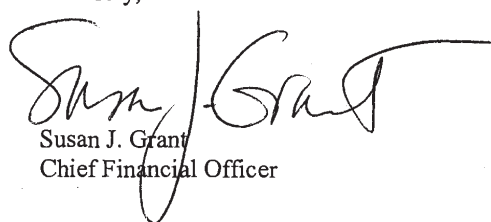
policies, procedures, and automated tools. eXCITE incorporates strict change control and patch management procedures to ensure availability is not compromised by controls implementation. eXCITE also reinforces access control at the desktop. While eXCITE is initially being rolled out at headquarters, the goal is to extend these services and practices across the Department enterprise.

OCIO is coordinating with program offices to develop a Departmental strategy to meet the requirements outlined in Homeland Security Presidential Directive 12 (HSPD-12). HSPD-12 requires Federal agencies to provide a common identification standard for Federal and contractor employees that will also provide both logical and physical access controls within the Department. Through this initiative, OCIO will ensure that access controls and authentication and authorization elements of identity management are joined to improve the Department's overall access infrastructure.

The OCIO is also working with program offices to evaluate the implementation of the Center for Internet Security operating system and application benchmarks to establish Department-wide, minimum cyber security configuration requirements. Minimum security configurations are required by the Federal Information Security Management Act, and are a requisite component of the OCIO's strategy to reduce vulnerabilities.

The leadership of the Department of Energy is committed to improving the cyber security posture of its information systems, including its financial systems.

Sincerely,



Susan J. Grant
Chief Financial Officer

Inspector General's Summary of Management and Performance Challenges

For the past several years, the Office of Inspector General has identified what it considers to be the most significant management and performance challenges facing the Department of Energy. This annual effort, now codified as part of the Reports Consolidation Act of 2000, reflects new work performed by the Office of Inspector General, assesses the agency's progress in addressing previously identified challenges, and considers emerging issues facing the Department.

In 2004, we identified six management challenges and categorized them as either mission-related or internal control. National Security, Environmental Cleanup, and Stockpile Stewardship were classified as mission-related challenges. These challenges represent risks that are inherent to the Department's complex operations and are likely to persist well into the future, in part, because they involve factors that are outside of the Department's direct control. We identified Contract Administration, Project Management, and Information Technology as internal control challenges. These challenges relate to the Department's management processes for achieving its missions and, if not addressed, may impede the Department's ability to carry out its program responsibilities and to ensure the integrity of its operations.

We noted that senior Department leadership has continued its robust initiative, started in March 2003, to address and, if possible, resolve our identified management challenges. The Deputy Secretary, as the leader of this initiative, has been personally invested in its operation, working with the Under Secretaries and Assistant Secretaries to achieve progress. Based on our analysis of this effort, if this initiative continues with the personal involvement of the Department's senior leadership, the risks associated with the identified management challenges should be reduced.

Although the Department has taken significant positive steps, we continue to consider these six challenges to be the most serious risks facing the Department in 2005 and beyond. For the most part,

these challenges are not amenable to near-term resolution and can only be addressed by a concerted, persistent effort, resulting in progress over a long period of time. The Inspector General looks forward to working with the Department's senior staff in a continuing effort to improve Department programs and operation, particularly as they relate to the management challenge areas.

As was the case in 2004, we have included energy supply, worker and community safety, and performance management on our "watch list" of operational and programmatic functions. Although these functions do not warrant classification as a management challenge, in our opinion, they need to be closely monitored by Department management.

Summaries of our six management challenges and our assessment of the Department's progress in addressing these challenges are as follows:

Mission-Related Challenges

• NATIONAL SECURITY

The Department's facilities and activities represent a critical component of national security. The Department must ensure that its most sensitive materials, facilities, and information are secure and protected from groups or countries hostile to the U.S. Recent incidents, such as two zip discs containing classified material not being located in a July 2004 inventory at Los Alamos National Laboratory, and our audits and inspections have demonstrated the need for continued vigilance and emphasis on security issues within the Department. For example, our reviews identified weaknesses in classified computer security, reporting of security incidents, and the readiness of protective forces. We also reported concerns about the Department's program to recover foreign research reactor spent fuel containing highly enriched uranium produced in the U.S. We noted that the Department has continued to make

progress in addressing security issues. For example, during FY 2004, Design Basis Threat implementation plans were approved for each National Nuclear Security Administration (NNSA) site and the Secretary announced major security initiatives designed to bolster protections for the Department's sensitive information and facilities housing special nuclear material.

• ENVIRONMENTAL CLEANUP

The Department faces the complex and costly tasks of cleaning up sites that supported nuclear weapons production activities and disposing of related nuclear waste. This long-term effort will require the continued attention of Department management as well as significant resources to resolve issues such as those pointed out in our audit work. For example, we reported that the Department had not made significant progress in its efforts to remediate groundwater at the Hanford Site. The Department must also deal with external factors such as the challenge to the Department's planned method for disposing of Waste Incidental to Reprocessing as well as funding, regulatory, and legal issues that could impact the acceptance of waste at the Yucca Mountain nuclear waste repository. In FY 2004, the Department has continued to make strides in addressing the inherent risks associated with this challenge. For example, the Office of Environmental Management (EM) issued its Office of Environmental Management Closure Planning Guidance to turn initiatives from its Top-to-Bottom-Review into formal processes needed to complete its cleanup program by 2035.

• STOCKPILE STEWARDSHIP

The Department's Stockpile Stewardship Program is responsible for maintaining the safety, reliability, and performance of the nation's nuclear weapons stockpile in the absence of underground nuclear testing. Our past work found that the Department has had difficulty with the efficiency of its operations, administrative processes, and the ability to conduct timely studies of weapons systems. Our work in FY 2004 identified concerns such as the absence of essen-

tial project management tools in the Enhanced Test Readiness Program and the delays in completing essential milestones for the Enhanced Surveillance Campaign, an essential program designed to provide advance warning of manufacturing and aging defects that could affect the nuclear weapons stockpile. To its credit, NNSA management has initiated corrective actions intended to improve management processes over planning and budgeting, information management, acquisitions, and human resources which directly impact the operations of the Stockpile Stewardship Program.

Internal Control Challenges

• CONTRACT ADMINISTRATION

Effective contract oversight is an ongoing challenge that the Department will continue to face since the Department places significant reliance on contractors and grantees to accomplish its missions. Our reviews in FY 2004 identified oversight weaknesses for areas such as contractor claimed costs, purchase cards, and subcontracts. As we reported in 2004, the Department's Chief Financial Officer, at the request of the Deputy Secretary, has developed a corrective action plan to address major areas of contract administration. In addition, the Department established a Blue Ribbon Commission to examine the use of competition at Department laboratories, and program offices have taken actions to address contract administration issues.

• PROJECT MANAGEMENT

To accomplish its missions, the Department undertakes numerous multi-million dollar construction and operating projects, many of which are unique and complex. Our reviews in FY 2004 identified the need for improvements in oversight to ensure that the Department's project management principles are extended to operating projects and projects are effectively accomplishing their goals. In response to criticisms in past years concerning weaknesses in project management, Department leadership has initiated a number of significant corrective actions, such as the project management career development program and certification of project directors. Additionally, some Departmental organizations

have initiated project management reforms such as EM's closure planning guidance to identify, plan, and accomplish cleanup activities in accordance with the Department's principles for project management.

- **INFORMATION TECHNOLOGY**

Information Technology remains a management challenge as the Department works towards fully implementing the requirements of the Clinger-Cohen Act of 1996. As in past years, our reviews have highlighted internal control weaknesses that impact the improvement of information technology systems. For example, we found that Department contractors were not always on track to deliver effective information technology systems on time or at expected cost. Also, our annual evaluation, required by the Federal Information Security Management Act, identified weaknesses in the Department's unclassified cyber security program. To its credit, the Chief Information Officer and senior-level Departmental management officials have focused their attention on addressing information technology issues.

Other Statutory Reporting

Management's Response to Audit Reports

Pursuant to the Inspector General Act Amendments of 1988 (Public Law 100-504), agency heads are to report to Congress on the status of final action taken on audit report recommendations. This report complements a report prepared by the Department's Office of Inspector General that provides information on audit reports issued during the period and on the status of management decisions made on Inspector General audit reports.

Inspector General Audit Reports

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the Inspector General (IG), and implementing agreed upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. The audit resolution and

follow-up process is an integral part of the Department's effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability. The Inspector General Act, as amended, requires that we report on the status of our progress in implementing these corrective actions. We are fulfilling this requirement by providing the information for the entire fiscal year in this section.

During Fiscal Year 2004, the Department took final action on 88 IG reports with the agreed upon actions including final action on eight IG operational, financial, and pre-award audit reports with funds put to better use. At the end of the period, 94 reports awaited final action.

Status of Final Action on IG Audit Reports for FY 2004

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations and funds "put to better use" that were agreed to by management.

Audit Reports	Number of Reports	Agreed-Upon Funds Put to Better Use (\$ in Millions)
Pending final action at the beginning of the period	120	\$ 3,680
With actions agreed upon during the period	62	\$.079
Total pending final action	182	\$ 3,680
Achieving final action during the period	88	\$ 2,580 *
Requiring final action at the end of the period	94	\$ 1,099

* Reflects a single Agreed Upon Funds Put to Better Use also included in the Office of Inspector General's semi-annual report.

INSPECTOR GENERAL'S CONTRACT AUDIT REPORTS

To begin this period, final action had not been taken on four Inspector General contract audit reports. Final action was taken on three such report during the fiscal year. At the end of the Fiscal Year, there is one contract audit report pending final action.

CONTRACT AUDIT REPORTS STATISTICAL TABLE

For the Period October 1, 2003 through September 30, 2004

Total Number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

	Number of Reports	Disallowed Costs*
Contract audit reports with management decisions on which final action had not been taken at the beginning of the period	4	N/A
Contract audit reports issued on which management decisions were made during the period	0	N/A
Total contract audit reports pending final action during the period	4	N/A
Contract audit reports on which final action was taken during the period		
Recoveries	1	\$16,053
Reinstatements	2	\$4,353,785
Totals	3	\$4,369,838
Contract audit reports needing final action at the end of the period	1	0

* The amount of costs questioned in the audit report with which the contracting officer concurs and has disallowed as a claim against the contract. Recoveries of disallowed costs are usually obtained by offset against current claims for payment and subsequently used for payment of other eligible costs under the contract.

Government Accountability Office Audit Reports

The U.S. Government Accountability Office (GAO) audits are a major component of the Department's audit follow-up program. At the beginning of fiscal year 2004 there were 27 GAO audit reports awaiting final action. During fiscal year 2004, the

Department was issued 41 additional final GAO audit reports. Of the 41 final reports, 18 required tracking of corrective actions and 23 did not because the report did not include actions to be taken by the Department. We completed agreed upon corrective actions on 9 audit reports. At the end of FY 2004, there were 36 GAO reports awaiting final action.

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